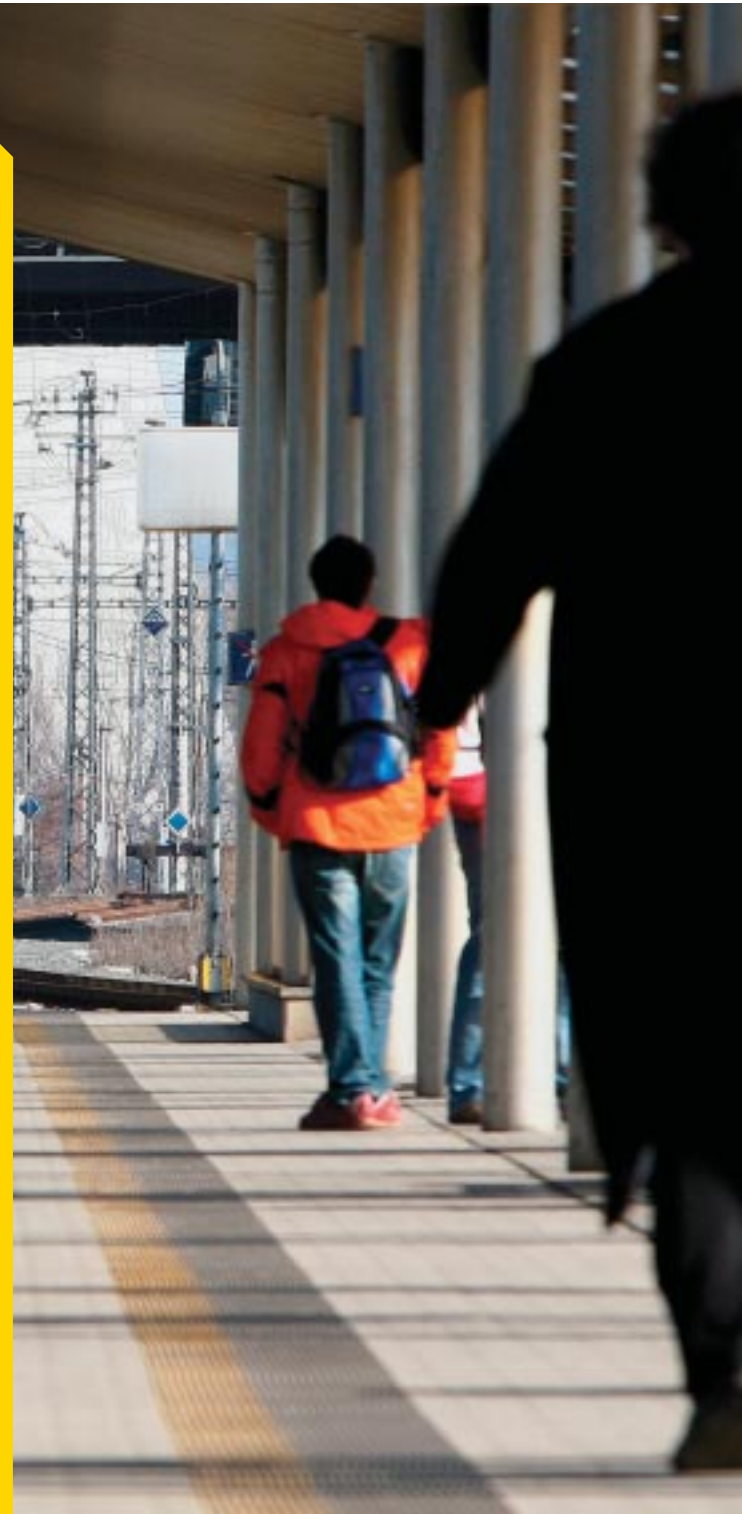


Annual Report of the ČESKÉ DRÁHY GROUP for the Year 2005

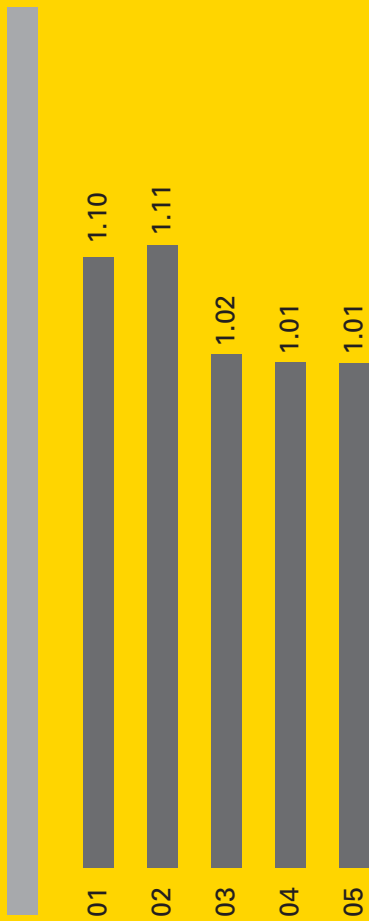




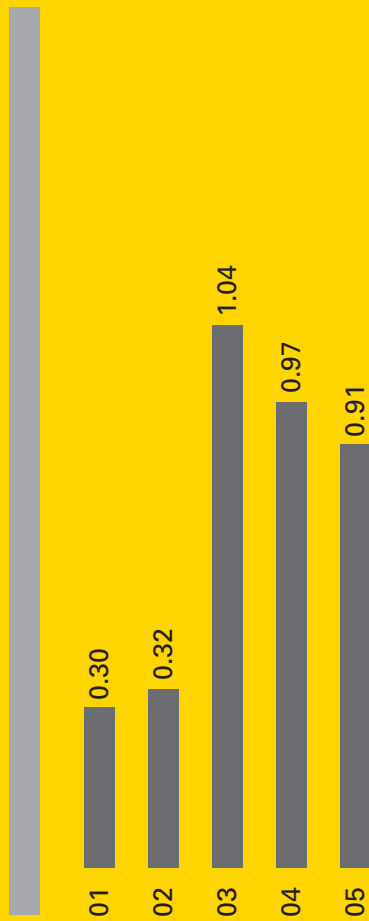
## Essential Economic Ratios of the České dráhy Group and České dráhy, a.s.

Ratio	ČD Group		České dráhy, a.s.		Index 05/04
	2005	2005	2004	2003	
<b>Assets and liabilities (CZK million)</b>					
Total assets	51,069	<b>50,013</b>	47,301	45,291	1.06
Non-current assets	42,222	<b>41,689</b>	38,729	36,236	1.08
Equity	36,543	<b>37,151</b>	37,576	38,316	0.99
<b>Profit or loss (CZK million)</b>					
Profit or loss from operating activities	-714	<b>-806</b>	-654	-903	1.23
Profit or loss for the period	-587	<b>-590</b>	-621	-925	0.95
<b>Income (CZK million)</b>					
Total income	46,080	<b>45,428</b>	45,982	47,247	0.99
Sales of own products and services	35,459	<b>34,901</b>	36,550	37,874	0.95
<b>Financial ratios</b>					
Turnover of assets (total income/total assets)	0.90	<b>0.91</b>	0.97	1.04	0.94
Indebtedness (total liabilities/total assets)	0.25	<b>0.25</b>	0.20	0.15	1.25
Liquidity (short-term financial assets/short-term payables)	0.27	<b>0.25</b>	0.31	0.40	0.81
<b>Employees</b>					
Average headcount recalculated for full-time employees (number of employees)	66,739	<b>65,232</b>	73,825	78,575	0.88
Income per employee (CZK/employee)	690,451	<b>696,407</b>	622,851	601,298	1.12
Added value per employee (CZK/employee)	239,094	<b>230,710</b>	224,363	230,969	1.03

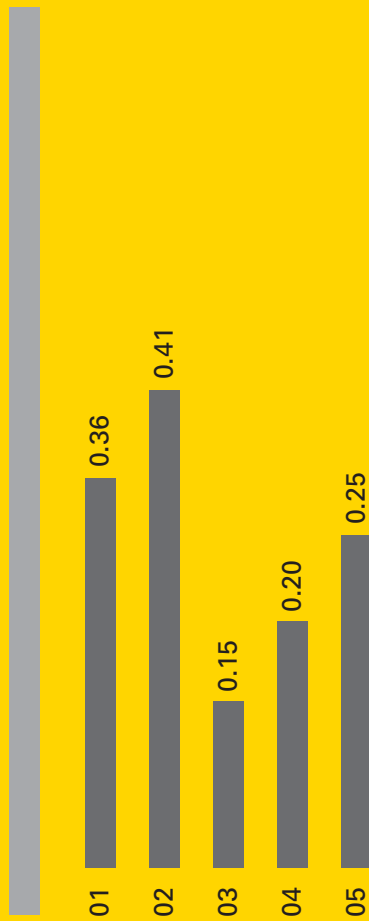
Expenses / income of CZK 1



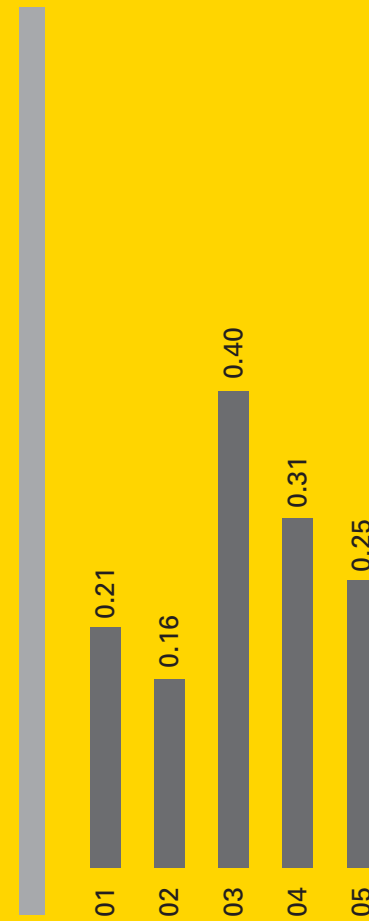
Turnover of assets



Indebtedness



Liquidity







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## Mission, Vision and Goals of the Company

The major mission of the České dráhy Group (hereinafter the "ČD Group") is to provide for incorporation of railway transport into integrated chains of mobility services that manage public transport of both passengers and merchandise in an environmentally friendly and cost-effective manner through mutual integration of the individual types of public transport. The efforts of České dráhy (hereinafter "ČD" or the "Company") for the transformation into a strategic holding are driven by the need to provide customers with premium quality services at attractive prices, exercising due care, to relieve the clients of all worries and concerns relating to railway transport and related activities.



The České dráhy Group offers complex railway transport-related services. Based on orders and contractual relations, ČD provides for the operation and maintenance of nation-wide as well as regional railway lines administered by the state organisation SŽDC, s.o. (Railway Transport Route Administration). In addition to the services pertaining to transport of passengers and merchandise and activities relating to the operation of railroad tracks, the ČD Group offers its customers a comprehensive set of services in other fields, primarily railway research, testing and telematics.

The ČD's railway network is composed of almost 2,700 stations and stops throughout the Czech Republic. These are connected through a network of approximately 9,500 km of tracks which are operated and maintained by the ČD on a contractual basis. One third of the best performing tracks is electrified. If split into pieces of 80 square kilometres, each square of the country would have one business site of Czech Railways performing activities related to public transport located on it.

ČD is the largest national railway transport operator with a long tradition and the contractual operator of the vast majority of railway lines in the Czech Republic. Day and night, ČD meets the transport needs of its clients and the transport performance and scope of the maintained and operated tracks ranks ČD as one of ten major European railway enterprises and one of the five largest ones in the European Union.

The main customers of ČD include the Czech government and the individual regions of the Czech Republic represented by the Transport Ministry in the area of passenger transport. In the freight transport segment, ČD is primarily engaged in the provision of logistic solutions for transport of bulk cargo and intermodal transport units, namely containers.

ČD continues to strengthen its position in the area of passenger railway transport within integrated transport systems intended to arrange for the provision of transport services on the territories of the individual Czech regions. With respect to freight transport, the volume of the environmentally-friendly combined transport is increasing. The share of transit transport in the overall performance is also on the rise. ČD ranks fourth in the field of international public railway transport of merchandise within the European Union.

České dráhy, a.s., was established pursuant to Act No. 77/2002 Coll. as of 1 January 2003 as the successor of the state enterprise České dráhy, státní organizace.

The mission of Traťová strojní společnost, a.s. (TSS) is to provide machines and services and technological transport under repairs, maintenance and investment activities on railways for České dráhy, a.s., and other construction companies in the Czech Republic and abroad. The company is chiefly focused on the operation of special railway machines and equipment for the construction, renovation and maintenance of railways, including their repairs and the production of spare parts.

The mission of Výzkumný Ústav Železniční, a.s. (VUZ) is to provide special railway technology services, primarily testing services. The current task of VUZ, a.s. is to broaden the range of offered services in certification and compliance-assessment of products and quality systems and the development of services in compliance-assessment of parts and subsystems in interoperability railway system. VUZ, a.s. has taken important steps to become a respected entity in Central Europe which would be authorised for all structural subsystems.

ČD - Telematika a.s. (ČD-T) is a strong and stable company which offers a wide range of telecommunication and IT services with contractually-guaranteed parameters. To offer services, ČD-T uses the second largest telecommunication infrastructure in the Czech Republic, central data storage, server farms, development, service and other specialised workplaces. The most significant customer of ČD-T is České dráhy, a.s., other important customers are several telecommunication operators, including the operator of CESNET (an academic network) and other significant companies with decentralised administration.









## Organisational Changes

As of 1 January, an independent legal entity, Traťová strojná společnost, a.s., was formed. ČD is the incorporator and the sole shareholder. The entity was formed by transforming the former specialised branch Traťová strojná stanice Pardubice. The formation of this independent legal entity is fully in compliance with the mid-term strategy of České dráhy, where the transfer of service activities to subsidiaries is one of the objectives.

The Government of the Czech Republic decided, by Resolution No. 145 dated 2 February 2005, to privatise 38.79 percent of the share capital of Jídelní a lůžkové vozy, a.s., with its registered office in Prague. The shares held by the National Property Fund of the Czech Republic were sold directly to the previously selected buyer, i.e. České dráhy, a.s. The purchase price of all shares amounted to CZK 20 million.

On 22 March, ČD's Board of Directors decided to close down the ČD General Representation in Stockholm as of 30 June. On 22 March, ČD's Board of Directors approved the formation of the subsidiary, ČD travel, s.r.o.; it was formed as of 1 August.

By making the contribution to the Telematika branch as of 1 April, ČD gained the majority shareholding in ČD - Telekomunikace a.s. This step completed the transformation of telematic services in ČD, which was carried out pursuant to the approved strategic objectives of the Company. On 15 April, the extraordinary General Meeting of ČD - Telekomunikace a.s. decided to rename the entity to ČD - Telematika a.s. (ČD-T) with effect from 11 May.

On 12 April, ČD's Board of Directors decided to suspend the operation of the organisational branch Správa rekreačního a domovního majetku (SRDM) as of 30 September.

On 1 July, Výzkumný Ústav Železniční, a.s. was formed and incorporated in the Register of Companies maintained by the Municipal Court in Prague. Výzkumný Ústav Železniční, a.s. was formed by the sole incorporator, České dráhy, a.s., by the Memorandum of Association dated 20 April 2005, as a joint stock company without a public offer for the subscription of its shares.

On 9 May, ČD and Sekyra Group established Smíchov Station Development, a.s., which is engaged in the development of the railway station Smíchov in Prague. ČD's holding of the entity's share capital is 51 percent. Smíchov Station Development, a.s. was formed on 1 June.

On 19 July, ČD's Board of Directors approved the formation of Dopravní vzdělávací institut, a.s. (DVI, a.s.); it was formed on 21 September.

The activities provided by the owner of the railway, temporarily carried out by ČD in return for monetary consideration from SŽDC, s.o., were transferred to SŽDC, s.o., including the relevant staff. The transfer had two stages – 1 July and 1 November.

On 22 November, ČD's Board of Directors decided to close down the Cestovní kancelář ČD branch with its registered office in Prague with effect from 31 December.

Pursuant to the approved Project to Form the Subsidiary ČD - Traťová strojná společnost, a.s., a strategic partner was selected in a tender. On 30 November 2005, České dráhy, a.s., as the sole shareholder of TSS, a.s., acting in the capacity of the General Meeting of this entity, decided to increase the share capital of TSS, a.s. by CZK 365,000,000 through the subscription of new shares and decided to offer these shares to the previously selected bidder, the winner of the tender – ŽS Brno, a.s. This decision was entered in the Register of Companies on 7 December 2005; the contract for the share subscription between TSS, a.s. and ŽS Brno, a.s. was entered into on 14 December 2005.

Pursuant to the decision of the ČD's CEO of 23 December, the ČD consolidation group for the year ended 31 December consists of ČD, a.s. (as the parent company), ČD-T a.s. (as a subsidiary), TSS, a.s. (as a subsidiary) and VUZ, a.s. (as a subsidiary).

## Business Activities

As of 3 January 2005, Act No. 1/2005 Coll. came into effect amending the Budgetary Tax Assessment Act No. 243/2000 Coll., as amended, and certain other acts. The amendment has resulted in substantial changes in the system of public passenger transport funding implemented as a public service obligation in providing transport services in regions because a substantial portion of the funds is no longer assigned to a special purpose.

Telematika, o.z. became a partner of the National Programme of PC Literacy for 2005. The programme is carried out under the auspices of the Ministry of Informatics of the Czech Republic. Telematika, o.z. participates in this programme with six other selected companies. The aim of the programme is to provide basic PC and Internet knowledge to the public.

On 21 March, the organisational branch Technická ústředna dopravní cesty (TÚDC) received the ISO 9001:2000 quality management system certificate. The receipt of the certificate, which is valid until 23 February 2008, was the culmination of nearly one-year of work on the development and implementation of a quality management system in diagnostics and technical services in railway transport. The TÚDC organisational branch has been renamed to TÚČD with effect from 1 April.

The Public Relations Chamber, which is an association of companies and individuals operating in the area, declared the first year of the contest "Spokesperson of the Year". The ČD spokesperson Petr Štáhlavský ranked second in the private sector.

From May to July, České dráhy, a.s. and Leica Gallery Prague, o.p.s. organised a unique exhibition of the well-known photographer Sebastiao Salgado under the auspices of the Minister of Transport, Milan Šimonovský. Salgado portrayed the world of disappearing manual work. The exhibition, placed in several specially-designed railway cars, gradually moved to 11 stations in the Czech Republic.

On 22 June, ČD entered into a contract with ING Lease to acquire 12 sleeping cars to be supplied in November 2006.

On 22 July, the Government of the Czech Republic approved the Transport Policy for 2005 – 2013 as the basic strategic document.

As of 22 July 2005, the Czech Accreditation Institute issued Accreditation Certificate No. 315/2005 for testing laboratory No. 1462 of Výzkumný Ústav Železniční, a.s., and Accreditation Certificate No. 314/2005 for the certification body No. 3149 for the certification of products.

On 31 October 2005, basic documents regarding railway strategic partners – Správa železniční dopravní cesty (a state organisation) and České dráhy (a joint stock company) – were signed. The documents include a three-year "Contract on securing the railway infrastructure operations, functionality and modernisation as well as the public interest developments" for 2006 – 2008, "Amendment 1 to the Contract" regarding the tasks of the three-year contract for 2006 and "Contract on the access to the railway infrastructure of the state-wide railways and regional railways owned by the state".

On 2 November, ČD and ČSA signed the Memorandum on the Co-operation on the Joint Operation of SC Pendolino Trains. The SC Pendolino trains from Prague to Ostrava and back are operated as joint ČD and ČSA lines under the code SC/OK. They also transport passengers with ČSA air-tickets between Prague, Pardubice, Olomouc and Ostrava with an average speed of 100 km/h.

Since 11 December, ČD has offered its passengers a EuroCity train "Jóže Plečnik" on the route Prague – Ljubljana with the possibility of changing in Linz to the EC Transalpine train to Vienna – Zurich – Basel and in Ljubljana, to the fast train Zidani Most – Zagreb. There is also a new direct couchette car line between Prague, České Budějovice and Venetia. A comfortable sleeping car has been added to the direct night couchette car line to Zurich. There are more lines to Germany. There is a new fast train from Prague to Nuremberg via Pilsen and Domažlice, and there are new four pairs of trains going daily from Děčín to Bad Schandau and an all-week fast passenger train line from Liberec to Dresden.

Also in 2005, ČD was successful in maintaining the exclusive position within the ten largest European railway enterprises engaged in public transport of passengers and merchandise. ČD's position is even better within the European Union where it ranks one of the five major transport providers from the perspective of the volume of transported merchandise.





Dear Ladies and Gentlemen, Business Partners,

We can say without exaggeration that 2005 was a year of changes for České dráhy. The company's operations began to be significantly dynamic, which proved that České dráhy is a confident company capable of competing on the market. We have seen that we are able to provide our customers with the highest added value.

We have experienced several crucial turning points, changed the management of our key activities and begun to concentrate on and dedicate our complete attention to our most important aim – our customers, instead of operations.

This often complicated process full of brand new approaches ended up being the only right way for České dráhy to move forward. Positive results can be seen in all areas of our activities. České dráhy has never experienced such dynamic changes, and, at the same time, we began to make increased use of our vast potential, both human and technical, with confidence and higher efficiency. Thanks to this, České dráhy has strengthened its position on the competitive market, managed to satisfy our customers and increased the levels of all our key indicators. Therefore, we can easily say that České dráhy is a successful company which has strengthened its standing on the national and international transportation market and belongs among the most important players in EU railway transport.

In May 2005, the new management of České dráhy took office with a single objective: to trigger dynamic changes that would ensure the company's long-term financial success. Thus, immediately after the new management took office, we began to pursue a new strategy which specifically affected the following areas:

- We separated the management of our two fundamental activities – passenger and freight transport. This gradually resulted in positive economic and performance indicators and accented focus on customers.
- We started to work on further strengthening the standing of České dráhy in the competitive transportation environment, concentrating on increasing sales coming from customers, developing our ability to be successful in tenders and building our position as a natural partner in railway transportation.
- We focused on further improving our performance through devolving activities that have the potential to develop individual business areas to subsidiaries. As such, there has been increased motivation for recruiting external customers, and thus, a lot of our activities ended up in the black. This can be illustrated by the activities of the following companies: TSS, ČD Telematika, VUZ, Railreklam etc.
- We continued to improve our economic results as well as to increase the level of funding in public transportation provided at the request of regions and the Ministry of Transport, and to cut costs, i.e. to increase performance efficiency. We also managed to boost the labour productivity of our employees by up to 20 percent per capita over the last three years.

The aforementioned changes did not affect only our results and management. At the same time, we concentrated on developing customer-oriented services.

- We offered completely new transport products for passengers, which resulted in the acquisition of a number of new customers. This includes the SC Pendolino project, a successful key product providing railway connections between Ostrava and Prague at a completely new level of quality of rail travel with České dráhy. Thanks to this service, we addressed completely new customers that would not even consider using railway transport before the introduction of Pendolino.
- We began to closely co-operate with regional authorities which are our clients in the area of regional railway transportation. Thanks to this, the process of concluding mutual business agreements became much easier, and simultaneously, České dráhy managed to present such offers to individual regional authorities in which we managed to maintain and further strengthen our position as a partner providing regional passenger transportation services. This is closely related to our 100 percent success in tenders for the provision of transport services announced by certain regions this year.
- We gradually changed our inconsistent approach in offering customers services and now provide comprehensive products with a high added value for customers. This applies both to passenger and freight transport. In the environment of a completely open liberalised market, České dráhy totally changed the freight transport trend of the past years despite the company's persistent disadvantageous position compared to road transport. České dráhy experienced an increase in outputs and the activities performed under ČD Cargo represent a significant success for the České dráhy portfolio.

Another success of České dráhy in 2005 was reached in the area of modernisation of the rolling stock and infrastructure.

- České dráhy concentrated on another large modernisation of railway stations infrastructure. We intend to introduce modern ČD infrastructure in all medium- and large-sized towns in the Czech Republic within the next ten years which would meet the standards of 21st century travelling. We increased the number of modernised railway stations for example in Znojmo, Choceň and other towns, thus adding new stations to the dozens of the existing ones. We also made use of further resources for funding the modernisation of railway station infrastructure and strengthening the co-operation with the private sector (public private partnership projects). Moreover, we streamlined all our activities as regards the railway station infrastructure modernisation under a project called ŽIVÁ NÁDRAŽÍ, clearly specifying our goal, i.e. to make České dráhy railway stations a central point of towns.
- Apart from the railway stations, our modernisation activities also focused on the rolling stock of České dráhy. We managed to introduce Pendolino high-speed trains into regular circulation. Having gone through its growing pains, Pendolino currently provides highly reliable services and represents the most technologically advanced vehicles operated by České dráhy. Thanks to the introduction of those trains, České dráhy became the only new EU country operating speed trains on a large scale within its network. However, we should not forget the regular fast trains and regional transportation. Here, we continued to supply CityElefant suburban trains originally called 471; we introduced Regionova engine-powered trains and continued modernising the 854-type speed trains. Simultaneously, we managed to use the new cars for further strengthening our relationships with our customers – Pendolino speed trains formed a base for our SC Pendolino project that was very successful with customers; Regionova engine-powered units were the basis of the Regionova project. This concept aided us in winning tenders for the provision of regional transport services and it showed an effective co-operation between the transport operator and the respective region aiming at the promotion of environmentally friendly and economic railway transport.

And finally, we should not forget the smaller but significant activities affecting the image of České dráhy. We started co-operating with Czech Airlines – a member of Skyteam, the leading association of international airlines, and began to operate the joint SC Pendoline “zero altitude” flights. Not so long ago, such co-operation would have been completely unthinkable and it undoubtedly proves that today ČD is able to offer services that satisfy even the most demanding customers using air transport. Other activities markedly enhancing the image of České dráhy from a customer’s perspective include the launch of on-line ticket sales – first for SC Pendolino trains only, but now today for InterCity trains as well.

All the changes I have mentioned in relation to 2005 would only have limited justification if the results of České dráhy did not include any concrete positive developments in performance.

The loss for 2005 amounted to CZK 590 million, which is CZK 31 million less than in 2004 and CZK 100 million less than the originally forecasted loss. Moreover, it is the best result in the history of the independent ČD, a.s., as well as in the history of the state-owned České dráhy. We plan to achieve even better results this year, which are undoubtedly proven by the current figures. The good news for our business partners is that our loss was only an accounting loss. The previous year’s cash flow was balanced and we were able to settle our obligations without any difficulties.

České dráhy also managed to maintain its position in the passenger and freight transport sectors, increasing its sales in the passenger transport sector and carrying out successful transactions in the freight transport sector. In the passenger transport sector, we intended to transport at least the same number of passengers as in 2004, which we managed, transporting 179 million passengers. The freight transport sector is characterised by unequal competition conditions between road and railway transport. Unlike České dráhy, other railway transport operators experienced a 14.2 percent decrease in their activities compared to 2004. As a result, the share of České dráhy of the total volume of realised freight transport transactions increased year-on-year and there has already been a trend for a significant increase in the sales and the volume of transported loads this year.



These positive results in the passenger and freight transport sectors are based on our first correct step which we dared to make in 2005, i.e. to organisationally separate these two areas so that each of them could find its own successful business model. We intend to further develop these steps and to support the bilateral business independence of our two key activities in co-operation with our shareholders. After all, this is in compliance with the recommendations of the EU. Therefore, it would lack foresight if the long-term strategic plans for further development of ČD did not encompass the alternative of devolving the passenger and freight transport sectors as independent subsidiaries.

Ladies and Gentlemen, Business Partners, the above was a short summary of a year of diversity at České dráhy. Let me take this opportunity to thank you for your confidence in our company and in railway transport in general. As the Chairman of the Board of Directors and the CEO of ČD, I can assure you that we will work on further strengthening ČD's position as a national railway transport operator with the same drive and commitment so that every citizen of the Czech Republic can be proud of our company. I hope and believe that we will meet again at the stations and in the trains of ČD and that you will be satisfied with our services.



**Josef Bazala**

Chairman of the Board of Directors and CEO of ČD, a.s.



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## Board of Directors

### 1 Josef Bazala

Chairman of the Board of Directors (since 10 May 2005) and Chief Executive Officer (since 11 May 2005), age: 49

Josef Bazala graduated from the Faculty of Operations and Economics of the Transport University in Žilina where he majored in transport operations and economics. In 1981, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed miscellaneous positions relating to railway operations and was responsible for the management of passenger transport services. Upon the establishment of České dráhy, státní organizace (the State Organisation of Czech Railways) in 1993, Bazala was appointed Senior Manager of the Trade and Operations Division. In 1995, he acted in the capacity of CEO for ČD for a period of three months. From 1996 to 2003, Bazala was employed by Spedi-Trans Praha, s.r.o.

### 2 Ivan Foltýn

Member of the Board of Directors (since 25 July 2003) and Deputy CEO for Economics (since 1 July 2003), age: 61

Ivan Foltýn graduated from the Faculty of Engineering and Electrical Engineering of the Transport University in Žilina where he specialised in communication and safety technologies in transport and completed a postgraduate study of railway weak-current systems. In 1969, he completed a postgraduate study of data transfer at the Faculty of Electrical Engineering of the Czech Technical University in Prague. Foltýn was Deputy Managing Director of the assembly plant Automatizace železniční dopravy (Railway Transport Automation) from 1972 to 1989. From 1 January 1990, he was Vice-Chairman of the District Authority in Olomouc and from November 1990 to July 1991, he was Chief Executive of the District Office in Olomouc. From 1991 to 1992, Foltýn was a Deputy to the Transport Minister of the Czech and Slovak Federative Republic, and from 1993 to 1997 he was a Deputy to the Transport Minister of the Czech Republic. From 1998 to 2002, he was Vice-Chairman of the Management Board of České dráhy, s.o. From 1 January 2003 to 30 June 2003, he was Chairman of the Supervisory Board of SŽDC, s.o.

### 3 Rodan Šenekl

Member of the Board of Directors (since 8 June 2005) and Deputy CEO for Freight Transport (since 1 June 2005), age: 48

Roman Šenekl graduated from the Faculty of Engineering and Electrical Engineering of the Transport University in Žilina where he majored in railway transport operations and economics. In 1983, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed miscellaneous positions relating to railway operations and was responsible for the IT team. Between 1992 and 2005, he worked for CAS Inc. Kanada as a Sales Manager; ICD spol. s r.o. as a Sales Manager; Container Train Bohemia, s.r.o., Praha as the Company's Director and Statutory Executive; ČSKD Intrans as a Manager of Praha Žižkov trans-shipment station; CID International as a Business Manager; and European Rail Shuttle, s.r.o., Prague as the Company's Director and Statutory Executive.

### 4 Jiří Kolář

Member of the Board of Directors (since 10 May 2005) and Deputy CEO for Passenger Transport (since 1 June 2005), age: 42

Jiří Kolář graduated from the Faculty of Engineering and Electrical Engineering of the Transport University in Žilina where he majored in transport operations and economics. In 1983, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed miscellaneous positions relating to railway operations. Between 1993 and 1999, he worked as the Stationmaster in Kladno. In 1999, he completed a postgraduate study at the University of Pardubice. Between 1999 and 2004, he was the Director of OPR Ústí nad Labem.

### 5 Petr David

Member of the Board of Directors (since 1 March 2005) and Deputy CEO for Railway Infrastructure (since 8 March 2005), age: 47

Petr David graduated from the Faculty of Civil Engineering of the Czech Technical University in Prague where he specialised in economics and management in civil engineering. In 1998, he graduated from the European Business School in Schloss Reichartshausen. In 2002, he completed his postgraduate studies at the Faculty of Transport of the University of Jan Perner in Pardubice where he specialised in Technologies and Management in Transport and Communications. In 1990, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed miscellaneous positions. After the establishment of ČD, s.o., in 1993, he held managing positions.



**Changes in the Compositions of the Board of Directors**

As of 9 May 2005, Mr. Petr Kousal terminated his position as Chairman of the Board of Directors and CEO. He remained as a member of the Board. As of 6 May 2005, Mr. Jiří Kloutvor ceased to be a member of the Board, and as of 9 May 2005, he ceased to hold the position of Deputy of the CEO for trade and operations. As of 9 May 2005, the Supervisory Board recalled Mr. Josef Bazala from his position as a member of the Board with effect as of 9 May 2005. As of 10 May 2005, the Board of Directors appointed Mr. Jiří Kolář as the Deputy of the CEO for trade and operations with effect as of 11 May 2005, and as of 10 May 2005, the Board recalled Mr. Josef Bazala from his position as First Deputy of the CEO. As of 25 May 2005, the Board recalled Mr. Jiří Kolář from the position of Deputy of the CEO for trade and operations with effect as of 31 May 2005. As of 3 June 2005, Mr. Petr Kousal terminated his membership in the Board of Directors.

**Supervisory Board****Vojtěch Kocourek**

Chairman of the Supervisory Board, age: 46

Main employment and position: Ministry of Transportation of the Czech Republic, Deputy Minister. Participation in other bodies: Steering Committee of ČD, a.s.; Board of the State Fund of Transport Infrastructure. Vojtěch Kocourek graduated from the Faculty of Civil Engineering of the Technical University in Brno in 1983. From 1983 to 1991, he worked at the Czechoslovak State Railways, Brno-jih Track Section Site, as a Railway Transport Engineer and Deputy Manager for Operations. From 1991 to 1996, he was employed by SEŽEV-REKO, s.r.o. as the firm's statutory executive. In 1996, he joined KPM CONSULT, a.s. as the CEO and Chairman of the Board of Directors, leaving on 1 November 2002 when he took up the position of Deputy Transport Minister.

**František Formánek**

Member of the Supervisory Board, age: 66

Partner at AŽD Praha s.r.o.

**Tomáš Chalánek**

Member of the Supervisory Board, age: 49

Tomáš Chalánek graduated from the Faculty of Mechanical Engineering of the Technical University in Brno where he specialised in transport machinery and handling equipment with a special focus on construction of combustion engines. He is a partner at M. B. HOSPITAL, spol. s r.o., Prostějov, a member of the Supervisory Board of ProMedica Trade s.r.o. Prostějov, a partner at ProMedica, spol. s r.o., Prostějov, a partner and statutory executive of MEDIHOPE s.r.o. Prague, and a partner at PROCOM's, spol. s r.o., Prostějov.

**Karel Korytář**

Member of the Supervisory Board, age: 56

He graduated from the Faculty of Electrical Engineering of the Technical University in Brno in 1974 where he majored in electrical networks and the energy industry. In 1981, he completed postgraduate studies at the Management Faculty of the Prague School of Economics. He was a senator of the Parliament of the Czech Republic in the period from 1997 to 2002. In 2003 and 2004, he was a member of the Supervisory Board of Severomoravská energetika, a.s., and in 2004 and 2005, he was a Vice-Chairman of the Supervisory Board of Středočeská energetická, a.s.

**Miroslav Kapoun**

Member of the Supervisory Board, age: 60

Kapoun is a member of the Parliament of the Czech Republic and the Chairman of the Economic Committee of the Chamber of Deputies of the Parliament of the Czech Republic.

**František Vašík**

Member of the Supervisory Board, age: 59

František Vašík graduated from the Faculty of Operations and Economics of the Transport University in Žilina where he specialised in the operation and economics of road and municipal transport. František Vašík is Chairman of the Board of Directors and Managing Director of Dopravní podnik Ostrava a.s. (Public Transport Enterprise).

**Jaromír Dušek**

Member of the Supervisory Board, age: 53

Dušek is a graduate of the Transport Faculty of the Jan Perner University in Pardubice where he specialised in transport marketing and management. He is Chairman of the Railway Trade Union and holds a licence for electricity production as an individual.

**Jiří Kratochvíl**

Member of the Supervisory Board, age: 58

Kratochvíl is a Vice-Chairman of the Railway Trade Union.

**Kurt Mužík**

Member of the Supervisory Board, age: 61

Mužík is the First Vice-Chairman of the Railway Trade Union and a member of the Management Board of the Okřídlené kolo foundation.

State administration

**Steering Committee**

Bodies of České dráhy, a.s.

**General Meeting****Supervisory Board****Board of Directors****CEO of ČD**

- (KGŘ) CEO's Office
- (O5) International Department
- (O10) Staff Department
- (O17) Internal Audit and Inspection Department
- (O25) Legal Department
- (O26) Strategy and IT Department
- (O27) Communication Department
- (O30) Crisis Proceeding and Security Department
- (O31) Asset Trading Department
- ČD Representative by the EU in Brussels

**Subsidiaries**

- RailReal a.s. (Prague)
- RAILREKLAM, spol. s r.o. (Prague)
- ČD Generalvertretung GmbH (Frankfurt/Main)
- ČD Reality a.s. (Prague)
- Tratová strojní společnost, a.s. (Pardubice)
- ČD - Telematika a.s. (Prague)
- Smíchov Station Development, a.s. (Prague)
- Výzkumný Ústav Železniční, a.s. (Prague)
- ČD travel, s.r.o. (Prague)
- Dopravní vzdělávací institut, a.s. (Prague)

Notes: The figures in parentheses behind name indicate numbers of relevant internal organisational units.  
Absence of a figure indicates the existence of a single unit.



**Deputy CEO for Economics**

(KEN) Office of the Deputy CEO for Economics  
 (O1) Financial Department (OPT) Traffic Receipts Clearing  
 (O2) Steering of Economy Department (ÚZV) Central Wagons Clearing  
 (O4) Administration Department  
 (O8) Supply and Sales Department (ZC) Supplying Centres (3)

**Deputy CEO for Freight Transport**

(KNND) Office of the Deputy CEO for Freight Transport  
 (O11) Infrastructure Operating Department (UŽST) Junction Stations (56)  
 (O18) Rail Transport Safety Inspectorate (ŽELSPED) ČD Forwarding Infrastructure operating  
 (O21) Freight Transport Department Freight transport  
 (GZ ČD) ČD Foreign General Representatives (4) Passenger transport  
 Cross disciplinary activities

**Deputy CEO for Passenger Transport**

(KNOD) Office of the Deputy CEO for Passenger Transport  
 (O12) Rolling Stock Department (DKV) Rolling Stock Depot (8)  
 (DPOV) Vehicle Repair Shop (2)  
 (O16) Passenger Transport Department (CK) Travel Agency

**Deputy CEO for Railway Infrastructure**

(KNDC) Office of the Deputy CEO for Railway Infrastructure  
 (O13) Civil Engineering and Infrastructure Operability Department (ŽZ) Railway Health Service  
 (TÚČD) ČD Technical Centre  
 (O14) Automation and Electrical Technology Department (SŽE) Railway Energy Administration  
 (O28) Environment Protection Department (SDC) Infrastructure Administration (13)  
 (HZS) Fire Service  
 (SŽG) Railway Geodezy Centre (2)







## Operation of Freight Transport

2005 was not very easy for ČD's freight transport and haulage. Despite maximising its business activities, ČD Cargo transported a total of 76.302 million tonnes of goods in 2005, which is 4.9 percent less than in the previous year.

The year ended 31 December 2005 was the first full year after the Czech Republic acceded to the EU, a year viewed with hopes that the domestic economy would gradually recover and the economies of our closest neighbouring countries would cease to stagnate. The announced benefits of the EU accession were very attractive and included advantages such as free access to the roads of the EU countries, enhancement of railways networks within the EU, extension of the transport market, increased investment in the Czech railway infrastructure, etc. However, most of the above-described advantages are likely to manifest themselves only in a long-term horizon. In contrast, the cessation of customs obligations on internal borders of the single market had an immediate and crucial impact on the railway transport – a negative one. Several-hour or even several-day lines of trucks disappeared from our borders and the transport of those trucks via railway was no longer of interest for road transport operators. Thus, the transportation of trucks on rails (Ro-La) ceased to be reasonable for road carriers, which also resulted in a decrease in railway import and export. Nevertheless, ČD together with the Ministry of Transportation of the Czech Republic have been discussing the possibility of relaunching the Ro-La transportation on new transport tracks in order to deal with the said issue. Thanks to the EU accession, ČD was also successful in executing bilateral agreements on technical, RID (international treaty) and business good faith for individual trips of specific train lines within combined transport, which allows for shorter or even non-existent periods of time where trains must wait at border stations.

Railway freight transport is operated under the trademark ČD Cargo within a network of more than 9,500 kilometres of railway lines in the Czech Republic. Freight transport services were provided to clients in 1,098 railway stations throughout the country and the loading station with the authorisation to dispatch trains (including 31 stations on privatised lines). One station providing for the acceptance and dispatch of shipments served a territory of an average of 69 square kilometres and more than 8.5 kilometres of railway lines. Approximately twenty-five thousand train cars carried miscellaneous types of goods each day on ČD's lines. It is obvious that, had freight transport of Czech Railways been exempted of the duty to share expenses on covering losses on passenger transport and on infrastructure operation, and had ČD been able to invest internal resources in modernising the offered transport services rather than in co-financing socially acceptable transportation of passengers, its position in the transport market both in the Czech Republic and Europe would have gained more significance.

The clients who need to consult their logistic needs with experts can contact our business managers, advisors, Czech Railways' Forwarding and the general representatives of Czech Railways abroad. Our new logistics dispatch team monitors and controls the quality of the executed transport on an ongoing basis. Gradually, the centralised co-ordination of carriages for shipment via IT (ÚDIV system) from Česká Třebová has been extended.

Trade activities of ČD Cargo within the freight segment focused on the following issues during 2005:

- Resolving problems encountered in innovating the rolling stock structure through a lease of advanced cars from other owners for selected customers and resolving increased pressure on flexible responses to repair needs respecting financial limitations;
- Maximising satisfaction of customers operating in bulk cargo, namely in terms of solid fuels, to whom relatively sufficient transport resources can be offered;
- Meeting the demands for international transport of wagon shipments with the help of modern cars borrowed from foreign railway operators;
- Making use of the increased demand for combined non-escorted transport, namely large containers;
- Modifying technology and logistics in the operation of freight transport to meet the needs and requirements of clients engaged in forwarding activities and within project rationalisation;
- Utilising redundant and temporarily idle freight wagons of Czech Railways for cross-border leases;
- Dealing with negative impacts of poor payment discipline of certain customers in the form of debt payment schedules, out of court recovery of revenues from executed transport transactions and adoption of preventive measures; and,
- Promoting our freight transport services in client centres, in the ČD Cargo magazine, at the international transport fairs in Prague, Bratislava, Munich, Gdansk, Dortmund, and at the "ČD Cargo Conference II" held in Špindlerův Mlýn.



A positive fact of freight transport is that we do manage to maintain the three fundamental trends:

- Having a large share of international transport in total transportation of goods, while import, export and transit amount to almost 60 percent of the freight transport volume;
- Gradually shifting, in terms of transport, from bulk cargo to finished products (influenced by a lack of funds for modern cars trim-lines); and
- Developing progressive transport types – non-escorted combined transport (primarily international transport of large containers).

In terms of inland transport, we managed to increase the volume of transported grain and food by 51.1 percent, i.e. by 205 thousand tonnes, as well as of lignite by 320 thousand tonnes, raw materials by 132 thousand tonnes; and wood, wooden products, lignite, large containers and chemical products. The aggregate year-on-year increase amounted to approximately 920 thousand tonnes. A decline of approximately 15.6 percent, i.e. 860 thousand tonnes, resulted in the termination of transporting iron, steel, and iron products. Another decline was witnessed in construction material, liquid fuels, charred coal and other goods. The declines exceeded the increases by approximately 500 thousand tonnes. The decline in the metallurgic industry had a significant impact on the volume of transport. This had an influence not only on the shipment of finished products but also on transport of iron ore, metal scrap, charred coal and dolomite limestone. On the other hand, we launched a new modern method of transport of wood chips to the paper factory in Štětí.

ČD Cargo transported almost the same volume of goods as last year, while the volume amounted to 20.24 million tonnes in exports (a decrease of 1.0 percent compared to last year) and 30.67 million tonnes in domestic transport (a decrease of 1.6 percent compared to last year). There was a decline in transit transportation, the volumes of which reached 6.65 million tonnes, decreasing by 8.9 percent, as well as in import which reached 18.74 million tonnes, decreasing by 12.1 percent. The share of the international transport on the aggregate transport has been on the rise since 1993 when ČD came into being due to the division of Československé státní dráhy (ČSD), while increasing from 45.2 percent to the current 59.8 percent, however, experiencing a 1.4 percent year-on-year decrease. The share of the transport of aggregate substrates (solid fuels, raw materials and ores, gravel, sand, liquid and gas fuels) in aggregate transportation further declined from 70.1 percent in 1994 to 61.3 percent in 2005. The gradual decrease in aggregate substrates transported by ČD is due to both increasing competition of cheap carriers transporting only in whole trains of the said commodity and a decrease in the aggregate demand for this commodity (due to gas supplies, for instance), which is also related to the decrease in aggregate transport volume. However, ČD intends to partially replace the aggregate substrate transport by the transport of finished products.

As regards export transport, we managed to increase the volume of transported grain and food by 172.3 percent, i.e. by 904 thousand tonnes (extraordinary exports of intervention grain and its storage in the EU), further chemical products and liquid fuels by 194 thousand tonnes, lignite by 98 thousand tonnes and charred coal. The aggregate increase amounted to approximately 1.1 million tonnes of goods. There was a decline in the transport of wood, wooden products and paper, namely by 439 thousand tonnes, as well as iron, steel and iron products by about 407 thousand tonnes, coal by 332 thousand tonnes, construction material, other goods and combined transport. The decrease exceeded the increase by approximately 204 thousand tonnes of goods.

Development in import and transit transport was much more complicated in 2005, having greater adverse implications. We did not manage to maintain the positions we held in 2004. We increased import transport volumes only in wood, by 100 thousand tonnes, and in chemical products, by 88 thousand tonnes. There was a significant decline in the transport of iron, steel, iron products (including ore), their aggregate decrease totalling approximately 1.2 million tonnes, i.e. by -11.4 percent; and coal and charred coal by 499 thousand tonnes; liquid fuels and artificial fertilisers by 319 thousand tonnes; as well as grains and foods, construction material by 408 thousand tonnes; combined transport, paper and other goods. The high number of decreases exceeded increases by almost 2.6 million tonnes.

The decline in the transport of iron ores, iron scraps, iron and charred coal is related to the reallocation of production technologies from smelting to processing imported raw semi-finished products (from Poland to ISPAT Nová huť) and possibly also with a decrease or change in the total production (e.g. in TŽ Třinec and Vítkovice).

Our ČD Cargo transport in the transit business line was under significant competition pressure because the transit truck transport on inland highways and first-class roads witnessed an increase of approximately 50 percent after the accession of the Czech Republic to the EU. The high competition pressures resulted in a year-on-year decrease by 649 thousand tonnes of the total transit transport of 6.65 million tonnes and cannot lead to maintaining the positions of transported volumes regardless of whether we deal with the situation or cut prices. An increase in transit transport was witnessed in construction material, namely by 76 thousand tonnes, chemical products and liquid fuels by 57 thousand tonnes, as well as in charred coal and foods. A significant decrease was seen in the transport of iron, steel, and iron products, namely by 423 thousand tonnes, but also of coal by 266 thousand tonnes, wood and wooden products by 198 thousand tonnes, and combined transport by 82 thousand tonnes. As a result of the decrease in the aggregate freight and transit transport, the share of the transit on the transport increased from the original 5.3 percent (1994) to 8.7 percent (2005) (a year-on-year decrease of 0.4 percent).

Over ČD's twelve-year existence, the share of combined transport increased from 1.5 percent to the current 7.1 percent. We should also mention the all-time high in the transport of goods in large containers increasing from 1.01 million tonnes in 1994 to 5.15 million tonnes in 2005, i.e. the highest increase in the whole twelve-year period (a year-on-year increase of 12.9 percent).

Activities of competitors engaged in railway transport, especially in inland transport, have an extraordinary impact on the ČD Cargo's business. Their scope of interest more and more includes international transport, which can be seen in their joining supranational alliances. Provided that they comply with the requirements stipulated by law and that they acquire a license, they will have free access to the railway transport infrastructure while the number of business entities with qualified staff, tractive units and appropriate freight cars increases. If the minimum own cost only includes direct complete trains that run on demand, then their transport price is not able to compete against long-term business contracts and customer rates.

Despite the difficulties encountered in 2005, ČD, a.s. managed to maintain its exclusive position among the seven largest transport operators in Europe and among the five in the European Union thanks to the reported volume of transported merchandise. It is in our interest to apply important Community documents in the Czech Republic which deal with the sustainable development of mobility, namely in the form of adoption of the binding transport policy of the European Community. We should pay special attention to the adequate utilisation of efficient railway transport (environmentally friendly, safe, term oriented, high capacity, equipped with modern cars) and international harmonisation of transport systems. The Czech Ministry of Transportation has been working on the development of a governmental transport policy charging highway use through the introduction of a toll system (applicable to cars with the weight over 12 tonnes only). This, together with related amendments of the industry's legal regulations, is a very important and desirable basis from which to assist the gradual harmonisation of the conditions for currently strong competing railway and road transport systems in order to optimise the use of railways. The systems should co-operate in building an inland transport system in the middle of Europe.

New measures have been adopted in order to enhance the development of freight transport and haulage in the next years and to eliminate the main risks that have a significant impact on ČD, a.s., business activities, in particular:

- Paying attention to the transport of aggregate substrates and maintaining a convenient price policy for ČD, a.s., for all such transport (long-term contracts with guaranteed planned volumes and prices);
- Maintaining a convenient pricing policy and using all information available in order to prevent the takeover of ČD, a.s., volumes by private transport operators and competing transport companies; co-operating with foreign private transport operators in transportation abroad, where such an approach would create more convenient pricing conditions;
- Preventing the decrease of road transport volumes due to offers of logistics services as well as outsourcing, and enhancing efforts to gain volume in road transport for railway transport;
- Effectively using the rolling stock owned both by ČD and foreign railway companies, cutting costs for idle tracks, accelerating shunting cars to the un/loading, and completely circulating cars within one handling action (use of the ÚDIV IT tool);
- Making the shunting of modern cars for individual business transactions more regular by using appropriate rented cars, or auxiliary cars so that the customers' needs for infrequent car lines is fully covered;
- Establishing national and international lines to and from selected stations in order to make shipping cheaper, faster and better in compliance with clients' requirements; and
- When entering foreign markets, co-operating with local transport companies which have convenient conditions for transport in both prices and technological conditions, so that ČD, a.s. is able to flexibly satisfy transport needs abroad.

### **ČD Forwarding**

SPEDICE ČD (ČD Forwarding) enables the provision of high quality dispatch services in both the inland and cross-border railway freight transport. ČD Forwarding is a branch of ČD, a.s., operating under the ŽELSPED trademark. It was established in 1992 and has been responsible for the comprehensive management of ČD's tank cars since 2001, including related transport transactions. In 2004, ČD Forwarding was charged with the preparation and implementation of specialised projects in the area of leases of other railway freight cars. ČD Forwarding is incorporated in the European forwarding and shipment system and is a member of FIATA and the Association of Forwarding and Logistics of the Czech Republic.

## Freight Transport

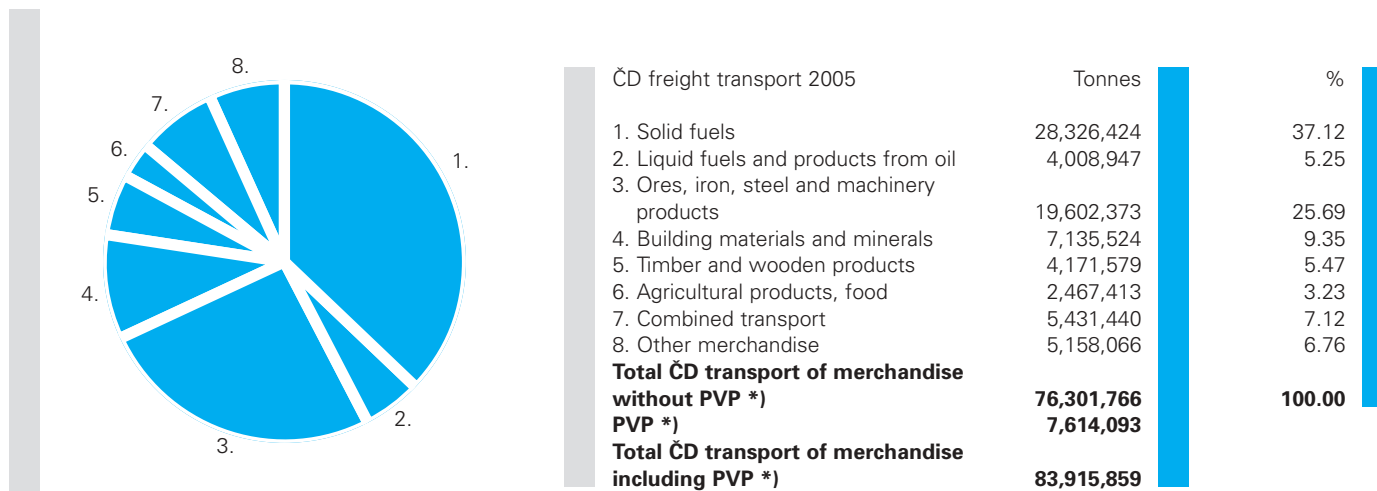
Indicator	Unit	2005 *)	2004 *)	2003 *)	Index 05/04
Total freight traffic	mil. tonnes	<b>83.92</b>	87.75	93.14	0.96
Sales from freight traffic **)	CZK mil.	<b>14,423</b>	15,219	16,061	0.95
Total sales from freight transport **)	CZK mil.	<b>16,479</b>	17,679	18,531	0.93
Total income from freight transport **)	CZK mil.	<b>16,728</b>	17,856	18,783	0.94
Expenses on freight transport	CZK mil.	<b>14,797</b>	15,488	16,199	0.96
Payment for the use of the infrastructure	CZK mil.	<b>4,200</b>	4,341	4,278	0.97
Profit/loss from freight transport	CZK mil.	<b>1,931</b>	2,368	2,584	0.82
Transport rate per tonne	CZK per tonne	<b>171.87</b>	173.43	172.45	0.99
Net tonne kilometres of ČD Cargo	mil. net km	<b>15,149</b>	15,566	16,396	0.97
Transport rate per net kilometre	CZK per net km	<b>0.95</b>	0.98	0.98	0.97
Total ČD Cargo gross tonne kilometres ***)	mil. gross km	<b>31,133</b>	32,149	33,725	0.96
– ČD Cargo gross kilometres in electric traction ***)	mil. gross km	<b>28,222</b>	29,144	30,469	0.97
Total ČD Cargo train kilometres ***)	thousands of train km	<b>32,692</b>	34,922	36,354	0.93
– ČD Cargo train kilometres in electric traction ***)	thousands of train km	<b>26,609</b>	28,280	29,197	0.94
Total ČD Cargo train weight	tonne/train	<b>951</b>	921	928	1.03
Average transportation distance	km	<b>180.5</b>	177.4	176.0	1.02
Empty running/loaded running	%	<b>73.26</b>	73.62	70.41	1.00

\*) The figures from the separate accounting books held for the operation of railway freight transport for 2003 and 2004 were audited in compliance with Section 10 of Act No. 77/2002 Coll., as amended. The figures for 2005 have not been audited.

\*\*\*) Sales from freight traffic include income from the freight transport of consignments. Sales from freight transport also include, apart from sales from the transportation of consignments, income from related activities associated with freight transport. Income from freight transport is included in the sum of sales from freight transport and specific-purpose grants (e.g. combined transport).

\*\*\*\*) Transport performances of train operating company České dráhy, a.s., on all lines in 2005. It indicates only transport performances on state lines operated by České dráhy, a.s., and hired till 2004.

## Share of Commodities in ČD, a.s.'s Transport of Merchandise (as of 22 April 2006)



\*) empty privately owned wagons









## Passenger Transport

The year ended 31 December 2005 was significantly influenced by the change in financing transport availability where the funds for basic public transport service (ZDO) were, for the first time, not determined; individual customers were entitled to determine the amount of financial means to secure the basic public transport service through railway transport. This significant change together with the condition and quality of the rolling stock and technological restrictions due to the transport infrastructure had a clear negative impact on ČD. With the exception of overburdened suburban lines and locations with no road infrastructure, customers prefer to use bus transportation due its flexibility and low costs. This was also caused by a non-uniform approach of individual customers. The possibility of a uniform approach in negotiations with the transport operator and the customer ordering ZDO was introduced only as of 1 July following Regulation No. 241/2005 Coll., on Provable Loss. Until then, the Regulation No. 36/2001 Coll., on Provable Loss, was in effect which, however, did not correspond to the administration system in place then, resulting from the creation of self-governing regional units. The change in funding resulted in a delayed conclusion of contracts with individual regions only during 2005. Simultaneously, the result of concluding the contracts late was an incomplete settlement of losses from realised outputs of railway transport where it was impossible, due to the limited time, to compensate the economic decrease through a corresponding reduction of the transport scope. The most complicated area was long-distance transport because the contract on securing ZDO was concluded with the State only at the very end of 2005, totalling only 63 percent from the provable loss from activities ordered by the State.

Insufficient funding of orders placed by the State is one of the reasons for a lack of means invested in repairs and maintenance of rolling stock. Apart from quantitative indicators, the contracts on securing ZDO include clearly defined criteria for the quality of services such as timeliness and the quality of the rolling stock (functionality of doors, windows, heating, cleanliness of trains, equipment of restrooms, functionality of IT systems, etc.).

In securing railway public transport service, the change in the legislation of the Czech Republic enables a hold on tender although it is not explicitly required. In 2005, for the first time, ČD, a.s., took part in three tenders to secure railway public transport service. One of the tenders was related to lines in the Karlovy Vary Region, the other two tenders were announced by the Ministry of Transportation. In the first case, ČD did not win the tender; however, they did secure the transport on the line for the 2005/2006 timetable because of a deviation by the tender announcer (due to a very short period for holding the tender and a failure to order track capacity by the winner of the tender). However, the announcer supposes, for the time being, that a contract on securing railway public transport service for the 2006/2007 timetable will be entered into according to the results of the tender.

The tenders announced by the Ministry of Transportation are very different. Despite being tenders for securing railway public transport service for the 2006/2007 timetable, they were not closed by March 2006 by the announcer, irrespective of the necessary connectivity of regional transport and deadlines for implementing the carrier's orders for rail capacity.

In 2005, the development of Integrated Transportation Systems (IDS) continued in individual regions as in previous years with ČD, a.s., as an active participant. At the end of 2005, there was significant development, particularly in the South-Moravian Region (IDS-JMK), the Hradec Králové Region (IREDO), as well as expansion in the Olomouc Region (IDSOK) and the Moravian-Silesian Region (ODIS). The output has also been growing in the Prague Integrated Transport (PID) and the integrated transportation systems in the Central Bohemian Region; however, without the participation of ČD, a.s., probably due to insufficient preferences of railway transport compared to the PID.

By participating in the integrated transportation systems, ČD, a.s. strengthens its position on the regional passenger transport market.

In 2005, there was further development of check-in systems linked with IT systems. The expansion of railway stations and stops has been continuing due to the launching of UNIPOK and simultaneous equipping of staff with electronic devices for issuing tickets in the train (POP).

At the end of the year, a new service was offered to customers – the sale of electronic tickets via the Internet for SuperCity trains (SC).

At the beginning of the 2005/2006 timetable, namely in December 2005, a trial run was launched with passengers in 680-class tilting trains as a complete SC category product between Prague and Ostrava with a guaranteed transport period and system of linked services. In relation to the introduction of the 680-line units, the co-operation with Czech Airlines was activated and the passengers were offered a complete product linking railway and air transport for the first time in history. During the advertisement of the prepared Fourth Corridor (Prague – České Budějovice), a new daily Ex/EC train to the Slovenian capital Ljubljana has been in use on this track since December 2005.

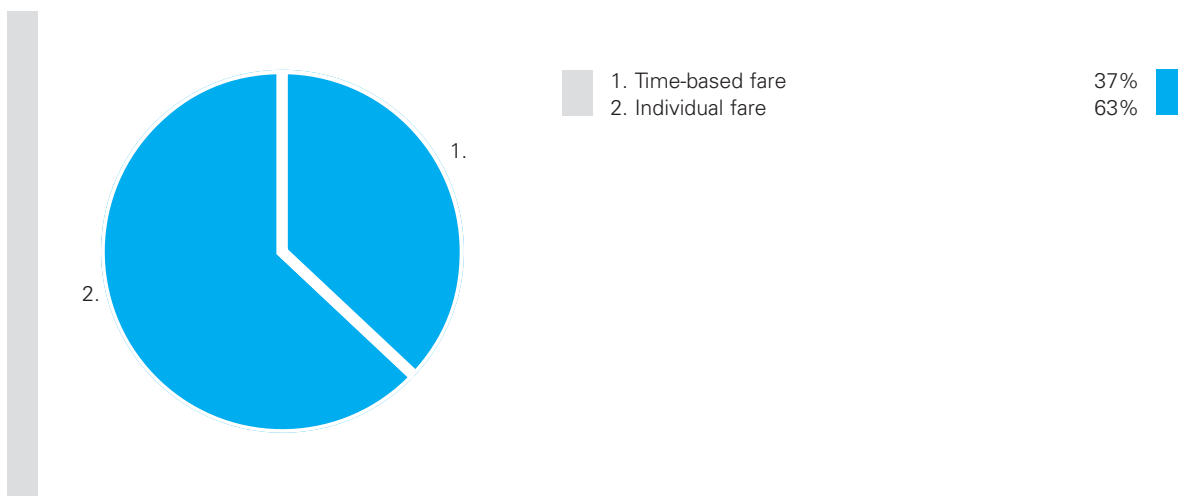
All passenger and fast trains within the timetable are ordered by regions in order to provide transport within the respective region; fast and express train categories are ordered by the State (the Ministry of Transportation). IC, EC and SC trains are operated by ČD, a.s. at own business risk.

Due to the introduction of the said operations in the region and long-distance transport, there was a significant decline in the need of passenger cars to cover the 2005/2006 timetable. The strength of the train sets is optimised on the basis of regular measurements of passenger numbers and further available information on transport requirements, including updated requirements of the customer (especially the influence of creating new job opportunities). However, due to extreme temperature fluctuations at the end of the year and in respect of the technical condition of the car stock, the quality of travelling and planning capacity of trains could be maintained only with difficulties, especially on busy days. The ongoing renewal of the rolling stock is not sufficient as regards the amounts and time. Late deliveries of cars with classical construction make it impossible to comply with the international liabilities of ČD, thus having an adverse effect on the economy of individual connections. Also, the slow replacement of old suburban 471-class cars disables meeting customers' demand for transport performances. A similar situation can be seen in the delivery of cars for regional transport.

The bicycle rental points continued to be developed as in 2004, especially in the Hradec Králové Region, the Moravian-Silesian Region and the Olomouc Region. This service extended the scope of cycling-related services provided in the past already (bicycle stores for passengers, facilitated transport of bicycles, adjustment of rolling stock and bicycle stores) and witnessed a relatively great demand.

The system of transport of small deliveries called ČD-Kurýr has also experienced certain development. At the end of the year, 285 stations were included in the system fully covering the demand for this service.

### Share of Fare Types in Public Transport



## Passenger Transport

Indicator	Unit	2005 *)	2004 *)	2003 *)	Index 05/04
Transportation of people	mil. of passengers	<b>178.21</b>	178.82	171.98	1.00
Sales from transportation of people **)	CZK mil.	<b>4,933</b>	4,716	4,431	1.05
Sales from passenger transport **)	CZK mil.	<b>5,438</b>	5,301	5,051	1.03
Other sales from major operations	CZK mil.	<b>143</b>	135	182	1.06
Expenses on passenger transport	CZK mil.	<b>15,960</b>	15,457	15,596	1.03
Payment for the use of the infrastructure	CZK mil.	<b>1,484</b>	1,469	1,480	1.01
Settlement of loss from payables arising from community services	CZK mil.	<b>7,335</b>	7,178	7,243	1.02
Loss on passenger transport (including its settlement)	CZK mil.	<b>-3,044</b>	-2,843	-3,120	1.07
Loss on passenger transport (without settlement)	CZK mil.	<b>-10,379</b>	-10,021	-10,363	1.04
Passenger kilometres	mil. pass. km	<b>6,631</b>	6,553	6,483	1.02
Average transport distance	km	<b>37.21</b>	36.65	38.34	1.02
Income rate per person	CZK/person	<b>27.68</b>	26.37	25.77	1.05
Income rate per passenger kilometre	CZK/pass. km	<b>0.74</b>	0.72	0.68	1.03
Train kilometres of passenger transport	thousands of train km	<b>113,157</b>	109,311	108,398	1.04
– train km electric engines	thousands of train km	<b>51,897</b>	49,681	48,620	1.04
Number of passengers per train	passenger/train	<b>58.60</b>	59.95	59.81	0.98

\*) The figures from the separate accounting books held for the operation of railway passenger transport for 2003 and 2004 were audited in compliance with Section 10 of Act No. 77/2002 Coll., as amended. The figures for 2005 have not been audited.

\*\*\*) Sales from passenger transport include sales relating directly to the transportation of people and luggage. Apart from the transportation of people, sales from other types of transport include revenues from associated activities relating to passenger transport.





## Infrastructure Operation

České dráhy, a.s., and SŽDC, s.o., entered into a contract for the period from 2003 to 2005 pursuant to Act No. 77/2002 Coll., as amended, to regulate the method of providing for the operation of railway infrastructure, its operability, modernisation and development in the public interest, the responsibilities of the contractual parties, including inspection, and the amount of reimbursements. As of 31 October 2005, a new contract for the period from 2006 to 2008 was entered into.

### Provision of Railway Lines Functionality

2005 was the last year of the three-year contractual relationship between ČD, a.s. and the Railway Infrastructure Administration, the state organisation ("SŽDC"), and also the year of preparing for the next stage, i.e. concluding the new Contract on securing railway infrastructure operations, functionality and modernisation, as well as public interest developments (hereinafter "the Contract"). The Contract also included an enhancement of the reporting activities provided to SŽDC by ČD. The following three-year period shall witness a transition from accounting reporting to reporting by invoicing of outputs. ČD, a.s., considers this approach to be the right way to reach the desired state, which will be based on valuation in unit prices of tracks while using the information relating to the stratification of railway costs according to the rolling load, strategic importance, etc. However, this approach should be simultaneously supplemented by information through benchmarking.

ČD, a.s., secured the functionality of 9,513 kilometres of railway tracks, out of which 1,460 kilometres consist of corridor tracks and 4,873 of other state country-wide tracks. The remaining tracks were regional. Within these tracks, we managed 8,421 crossings, 6,675 bridges, 18,587 culverts, 2,300 walls and 152 tunnels.

Until 2005, our employees also worked on a large agenda for SŽDC, especially in terms of technical development; they also co-ordinated and were responsible for regulations and technical legislation necessary for securing the functionality, development and modernisation of the railway network. During 2005, these activities were transferred to SŽDC, which also resulted in a reduction of ČD, a.s.'s staff.

### Infrastructure Modernisation

Pursuant to the terms of the Contract concluded with SŽDC, s.o., ČD participated in a modernisation of corridor lines.

The modernisation of the First Transit Corridor resulted in the completion of 3.132-kilometre track between Lanžhot and the state border of the Czech Republic and Slovak Republic. Moreover, two further railway stations (Choceň and Lanžhot) with the total railway length amounting to 4.013 kilometres were completed. The total of 7.145-kilometre two-track routes were modernised in the First Transit Corridor, out of which 4.013 kilometres was made up by main tracks of stations.

The modernisation of the Bohumín railway station resulted in the completion of a total of 6.169 kilometres

The most intense building activity in 2005 was carried out on the linking track between First and Second Transit Corridors on the Česká Třebová – Přerov route. The following two-track routes were also completed: Rudoltice v Čechách to Třebovice v Čechách, of 2.092 kilometres; Hoštejn to a temporary detour in Tatenice, of 4.100 kilometres; Zábřeh na Moravě to a temporary detour in Most, of 0.935 kilometres; and Brodek u Přerova to Grygov, of 5.145 kilometres. In addition, the modernisation of four railway stations was completed, namely Třebovice v Čechách with the construction of 2.092 kilometres, Hoštejn with the construction of 2.630 kilometres, Zábřeh na Moravě with the construction of 2.013 kilometres, and Grygov with the construction of 2.020 kilometres.

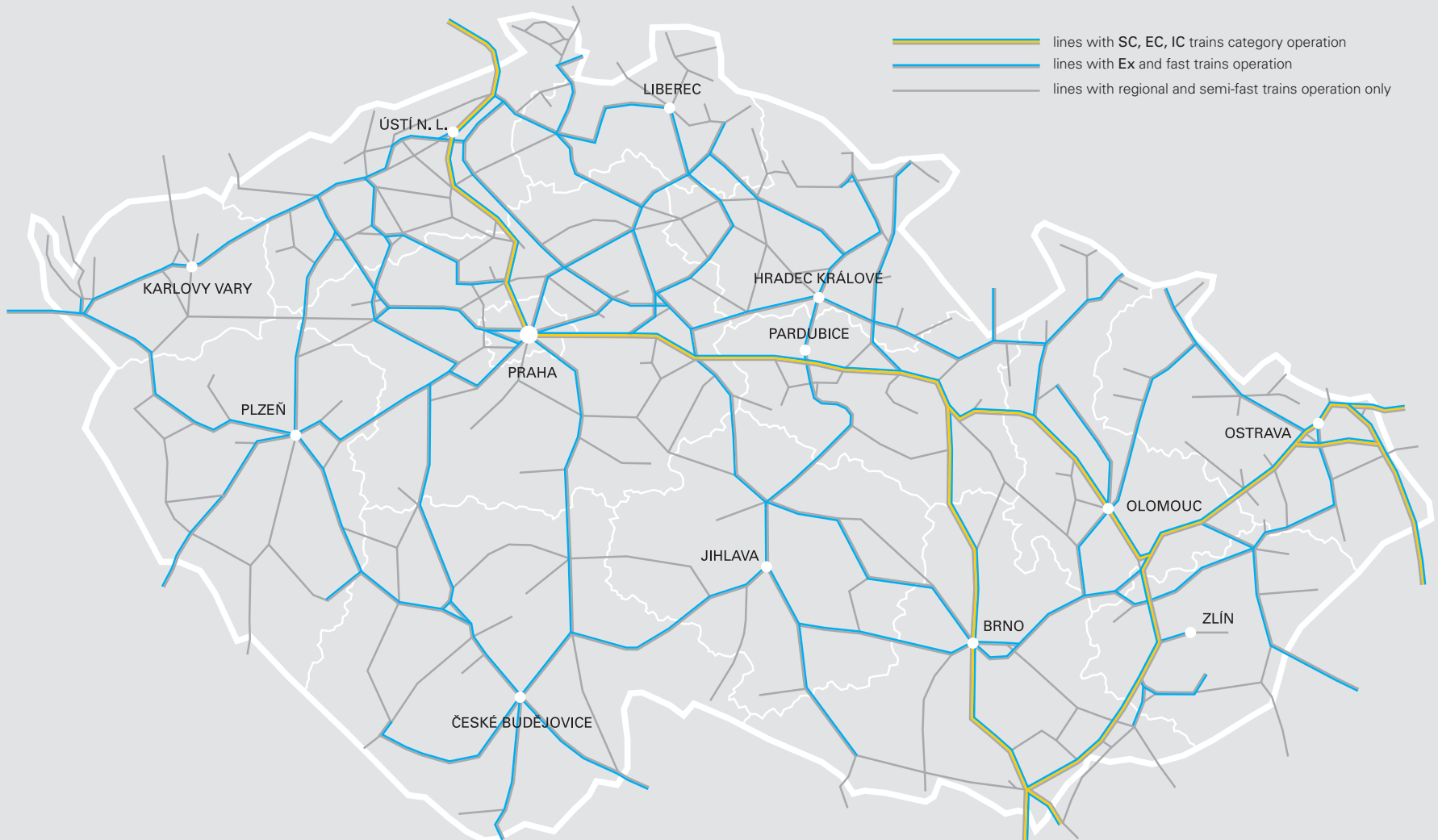
In total, the linking tracks between the First and Second Corridors modernised in 2005 amounted to 25.185 kilometres of two-track rails, of which 8.755 kilometres are main tracks of stations.

The total of 38.499 kilometres two-track routes, of which 20.233 kilometres are main tracks of stations, were completed on the First and Second Transit Corridor and their linking tracks.

In 2005, the modernisation of the Fourth Corridor on the Prague to Benešov u Prahy route was also launched; however, only the Prague Hostivař to Prague Uhřetěves route of 3.100-kilometre two-track routes was completed.



## Networks of Lines Maintained and Operated under Contracts, Focusing on Corridors



Also, the construction of the “New Connection” between Praha – Libeň (Praha – Vysočany) and Praha Hlavní nádraží (Central Station) was under way, the completion of which will contribute significantly to the transport capacity and speed of trains arriving in the Praha Hlavní nádraží from the east. The modernisation of the Ústí nad Labem railway junction started.

#### **Infrastructure Reconstruction**

In 2005, the reconstruction of the electrification of the Rybník – Lipno nad Vltavou line was completed. The electrification of the Karlovy Vary – Kadaň route was in process. We also electrified the Karlovy Vary – Vojkovice nad Ohří route in 2005. The electrification of this route is expected to be completed by the end of the first quarter of 2006.

The electrification of the Ostrava Svinov – Opava východ line was launched, especially on the Ostrava Svinov – Háj ve Slezsku part. The project is expected to be completed by the end of 2006. During 2005, ČD brought into use two modernised control stations in Pilsen and Přerov.

The responsible approach in securing the purchase of electric power from the suppliers together with optimisation of the agreed reserved capacity enabled ČD to reduce the influence of the increase in power electricity. The year-on-year price index increase, which was originally 11.6 percent, was not reached; only 4.35 percent was reached, which had a significant influence on the decrease of operation costs for ČD, a.s.

The parts of the Prague – Ostrava line where no modernisation has taken place yet were adjusted so that it would be possible to launch the operation of the 680 Pendolino trim-line for the purposes of passenger transport at the beginning of the 2006 timetable.

The implementation of internet application software continued to enhance functionality. There was further development of the “Bridge Evidence System” and a new application called “Evidence System of Tunnels” was launched. Implementation of the SAP R/3 controlling module has been carried out on the basis of a long-term project of ČD, a.s. In 2005, new typology clearing centres were introduced uniformly in the whole Company, and the controlling vertical models focusing on processes were completed.

#### **Operational Management of Train Circulation and Organisation of Railway Transport**

The operational management of train circulation and the organisation of rail transport help ČD cover the requirements of railway transport operators as regards the infrastructure capacity in train paths. The primary objective is to comply with the requirements of effective use of railway infrastructure and provide maximum operational economy and safety of the railway.

Since 1 January 2005, ČD, a.s. has begun to use the two-level management system and has introduced vertical management. The managing level of vertical operations is represented by the Department for operational management of train circulation and the organisation of rail transport of the Directorate General of ČD, a.s., which is a part of six regional centres of operational management of train circulation and organisation of rail transport (RCP) with seats in Brno, Česká Třebová, Ostrava, Pilsen, Prague and Ústí nad Labem.

Seamless and reliable transport of people and merchandise on the railway is ČD's priority. The focus is on managing difficult operations during closures, especially in terms of the construction of corridors. The original transport quantity management was fully replaced by stressing quality with timeliness and accuracy in transporting deliveries or people as the decisive criteria. A number of technical, technological and organisational means adopted aim at securing “just-in-time” systems required by the current production regime with minimum requirements for buffer storing.

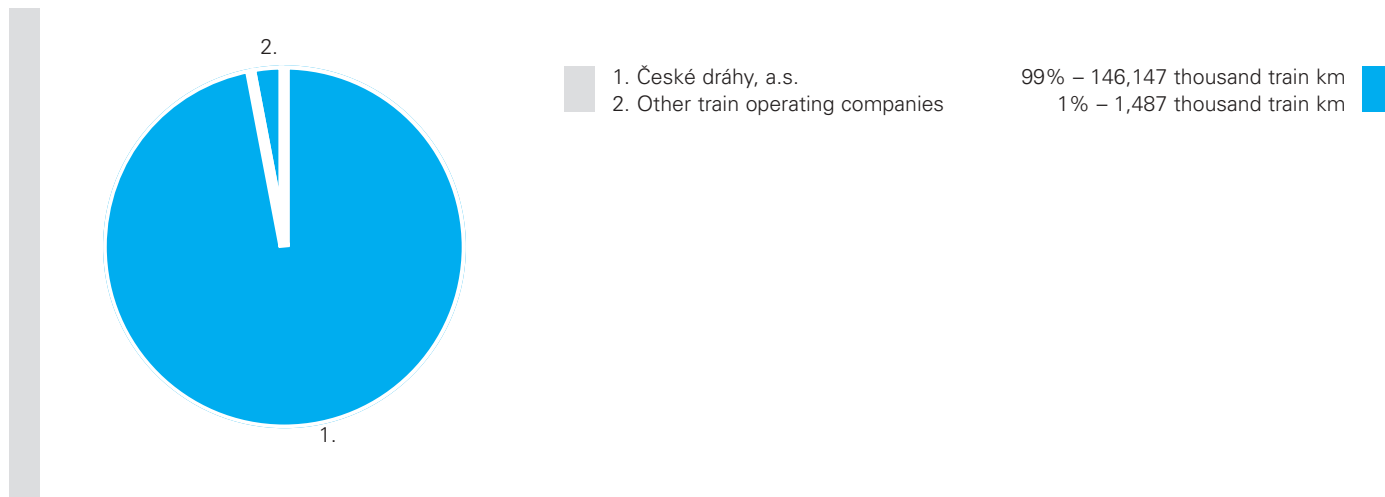
Despite all measures and operational actions, there were disturbances on the timetable which were consequences of the construction activities in the modernisation of the tracks. The timetable as a whole was of a high quality, reaching 91.7 percent of the performance (92.3 percent in the first quarter 2005, 91.1 percent in the second quarter.).

After the EU accession, liberalised internal transport market was expanded for inter-state railway transport as well, whereby 54 railway operators can provide transport and 16 of them provide international transport in co-operation with transport providers from neighbouring countries. ČD as a Rail Net Europe (RNE) member created “One-Stop-Shop” (OSS) Department within operational management and organisation of railway transport. Pursuant to the contract with SŽDC, s.o., which is the owner of the infrastructure and assigns its capacity, ČD provides all eligible entities with access to this infrastructure. Thanks to solutions of a number of statutory and technologic problems, ČD has built a working system in line with national and European legislation.

Operational management did not lag behind in rationalisation and implementation of modern technologies. ČD aims to cut staff costs and increase productivity and quality of delivered services. ČD pays special attention to the use of modern technologies in the operational management. On-line information on the time-frame and location of trains has become standard. Mobile phone information about train connections is used more and more. ČD matches national railway companies from developed countries in the implementation of new technologies for train security despite the decreasing of the number of employees.

ČD as a highly-qualified, internationally involved and experienced integrated national railway company creates and, in line with technical development of international standards, keeps improving technological rules which pave the way for successful liberalised business of railway transport operators on the infrastructure administered by SŽDC.

### Share of Train Operators on Train Outputs on Infrastructure Operated by ČD, a.s. on a Contractual Basis



### Operation of Infrastructure

Indicator	Unit	2005 *)	2004 *)	2003 *)	Index 05/04
Income from infrastructure operation	CZK mil.	<b>11,418</b>	11,506	12,162	0.99
Results of operation	CZK mil.	<b>-1,203</b>	-750	-684	1.60
Length of maintained and operated lines	km	<b>9,513</b>	9,511	9,501	1.00
– of which electrified	km	<b>2,997</b>	2,982	2,943	1.01
– of which double- and multiple-track lines	km	<b>1,868</b>	1,866	1,845	1.00
Total length of maintained tracks	km	<b>16,053</b>	16,157	16,187	0.99
Train kilometres (all operators)	thousands of train km	<b>147,634</b>	145,857	146,025	1.01
Gross tonne kilometres (all operators)	mil. of gross tonne km	<b>50,068</b>	50,553	52,044	0.99
Axle kilometres (all operators)	mil. axle km	<b>4,175</b>	4,262	4,404	0.98
Number of monitored trains		<b>4,820,467</b>	4,789,585	4,783,830	1.01
Adherence to the schedule of train traffic for the monitored trains **)	%	<b>91.7</b>	91.7	90.4	1.00
Time delays of higher quality trains	min/100 train km	<b>2.3</b>	2.1	1.4	1.10

\*) The figures from the separate accounting books held for the operation of the railway infrastructure for 2003 and 2004 were audited in compliance with Section 10 of Act No. 77/2002 Coll., as amended. The figures for 2005 have not been audited.

\*\*\*) The ratio of trains meeting the schedule with a variance of five minutes plus or minus and the number of monitored trains.

## Tangible Fixed Assets of České dráhy as of 31 December (selected items)

Ratio	Unit	2005	2004	2003	Index 05/04
<b>Railway vehicles</b>					
Direct current electric locomotives	pcs	539	541	546	1.00
Alternating current electric locomotives	pcs	242	245	247	0.99
Electric two-system locomotives	pcs	149	148	145	1.01
Diesel locomotives	pcs	1,237	1,347	1,373	0.92
Steam locomotives	pcs	22	22	22	1.00
Diesel railcars	pcs	785	785	791	1.00
Electric trainsets	pcs	107	100	95	1.07
Freight wagons	pcs	34,610	35,023	35,615	0.99
Passenger and luggage coaches	pcs	4,425	4,549	4,675	0.97
<b>Railway substructure and superstructure</b>					
Total length of lines	km	6	6	7	1.00
Electrified lines	km	3	3	3	1.00
Total construction length of tracks	km	551	621	606	0.89
Number of turnout units	pcs	2,673	2,801	2,708	0.95
Number of bridges	pcs	6	7	7	0.86
Total length of bridges	m	104	117	117	0.89
<b>Communication equipment</b>					
Number of telephone switchboards	pcs	450	450	409	1.00
Of which, electronic switchboards	pcs	270	250	231	1.08
Long-distance cabling	km	6,550	6,550	6,524	1.00
Of which, optical cables	km	2,189	1,989	1,270	1.10
Public radio	pcs	8	8	8	1.00
Overhead circuit tracks	km	1,513	1,513	1,513	1.00

**Other Business Activities of ČD, a.s.**

In 2005, ČD, a.s. launched the implementation of the first objective under the gradual revitalisation of railway stations involving more effective commercial usage of the Company's real estate. By fulfilling this objective, the Company hopes to generate a positive secondary effect for passenger transportation.

The tender for the provision of network operator services invited in respect of defined service categories (fast food – hot and cold, pizzerias, packaged food, bakeries, sale of deli products, self-service food centres, press shops, tobacconist, flower shops, service centres, and gaming machine operations) continued in 2005 whereby contracts were concluded with selected partners.

In implementing its intention of using the railway station premises for, to a high extent, commercial purposes, ČD, a.s. closely co-operated with its subsidiary, ČD Reality, a.s., whose principal role is to provide services related to the preparation and realisation of individual real estate projects. Upon initiation of the project entitled "Live Railway Station", 52 locations were selected for this project. As of 31 December 2005, the Company launched 47 projects, selected implementation partners for 10 projects, invited tender for implementation partners for 24 projects, and plans to announce another 12 projects by the end of April 2006. Based on the results of a feasibility study and in view of the uncertainty as to possible commercial usage, six projects were excluded from the implementation plan for the time being.

In 2005, managing ČD, a.s.'s real estate followed the resolutions of the Supervisory Board of ČD, a.s. No. 116 dated 3 July 2003 and No. 295 dated 28 May 2004, involving the lease of assets, the sale of real estate, the revitalisation of real estate (both buildings and land) and the management of equity interests in other companies.

ČD, a.s. pays considerable attention to the preparation and implementation of real estate projects, such as the preparation of premises for future property developers and investors. As of 31 December 2005, the Company held equity interests in the following joint ventures: CR-City a.s., RailReal a.s., Masaryk Station Development, a.s., ČD Reality, a.s., and Smíchov Station Development, a.s.

For sites where the revitalisation project partner has already been selected, long-term rental contracts have been prepared in a manner ensuring the recovery of expenses incurred by the partner. The objective of the business activities relating to real estate is to prepare quality sites and draft projects for further development at the cost of the selected partner and without the need to utilise internal resources of ČD, a.s.

The aggregate income from the lease of non-residential premises and land provided for on a centralised basis for the year ended 31 December 2005 totalled CZK 382.5 million. Aggregate income from the sale of real estate as of 31 December 2005 amounted to CZK 885.7 million.

Financial rewards from joint ventures operations where ČD, a.s. maintains equity interests amounted to CZK 214.3 million in 2005, of which the RailReal, the CD Centrum, a.s. and CR-City, a.s. projects accounted for CZK 123.9 million, CZK 33.5 million and CZK 46.9 million, respectively.









VÍTEJTE OPĚT  
NA PALUBĚ

Vážení cestující,  
jsem velmi ráda, že vás mohu přivítat  
ve vlacích SC Pendolino.  
Nezapomeňte si včas rezervovat své místo.

Jana Havranová, palubní průvodčí

## Marketing Communication

The year ended 31 December 2005 was a breakthrough in terms of ČD's communication: the Company started focusing on interconnecting communication and supporting its operations in a liberalised competitive market, especially after the entry of new management in May 2005.

This new communication approach is based on more focused and intensive activities aimed at presenting Czech Railways as a modern transportation company providing quality services for a good price, thereby strengthening ČD's image as a customer-oriented company in the media. The fulfilment of this objective is assisted, among others, by new types of communication activities (mainly of a regional character), marketing and communication of the Company's projects (revitalisation of railway stations, modernisation of the rolling stock, etc.), and also by directly supporting the activities of ČD and its subsidiaries in the media.

ČD's major communication campaigns in the year ended 31 December 2005 focused on three issues:

### SC Pendolino Product

The comprehensive communication strategy promoting the launch of the SC Pendolino product on the Czech market is a clear example of the direct link between media communication and business activities of Czech Railways. The strategy is aimed at creating a positive product image upon introduction of the market. Strongly targeted communication and presentation of the SC Pendolino product is carried out at both the national and regional levels.

### "Live Railway Stations" Project

The project of revitalising Czech Railways' railway stations in selected cities has been promoted on a long-term basis through a comprehensive communication campaign. The year-round campaign involves both nation-wide and regional activities under a special brand and logo. The modernisation of railway premises is an issue attracting customer attention, significantly enhancing the level of services provided by Czech Railways and improving ČD's public image.

### Modernisation of Rolling Stock

The third major communication campaign deals with the presentation of plans and individual activities related to the modernisation of Czech Railways' rolling stock. Particularly, this covers a presentation in the media of the Regionova diesel regional railcars concept, including a special brand and name; a presentation of modernised railcars in other areas, such as suburban sets, long-distance railcars; and the introduction of Pendolino fast trains as one of the types of ČD trains. The campaigns are held on national and regional levels.

Naturally, ČD's marketing communication in 2005 involved more than the above campaigns. Other marketing activities can be divided into the following groups:

- Product campaigns promoting passenger and freight transport;
- Trade fairs and exhibitions; and
- Promotional events.

### Product Campaigns Promoting Passenger and Freight Transport

Product campaigns are aimed at delivering as much information as possible to current and potential customers. Passengers can learn about what is new in the business not only from standard fliers and posters, but also from city light boxes, advertising on tickets, promotions in print and banners on the website. Throughout the year, ČD held product campaigns called "Take a Train to Krkonoše", "Bike Hire Services", "SONE+ Offer", "Car Trains to Slovakia and the Adriatic" and, most importantly, "Welcome on Board SC Pendolino".

### Trade Fairs and Exhibitions

Czech Railways perceives the participation in trade fairs as an opportunity for informing and communicating with the professional public. Trade fairs provide a chance for face-to-face communication and personal dialogue, in addition to presentations of products and services. These are also the reasons why Czech Railways takes part in trade fairs and exhibitions locally as well as abroad, such as those held in Brno, Dortmund, Jablonec nad Nisou and Ostrava.

### Presentation and Promotional Events

In addition to traditional advertising activities, Czech Railways is a regular participant in miscellaneous events. With its presentations during such events, ČD strives not only to support the event as such, but also to increase the public's perception of railways that not only renders transport services, carries people to work and school, but also offers a wide range of other supplementary services. ČD was involved in the following events: a festival called "Brno – a City in the Middle of Europe" (4 June to 5 June 2005, Brno); an agricultural fair called "Land, the Provider" ("Země Živitelka", 25 August to 31 August 2005, České Budějovice); the "Garden of Bohemia" fair (16 September to 24 September 2005, Litoměřice); the International Festival of Children and Youth Films (29 May to 4 June 2005, Zlín); Bambiriáda (26 May to 29 May 2005); and "A Day with Handicap" (10 September to 11 September 2005, Český Krumlov). Under the beneficial travel offer VLAK+, ČD participated in organising events such as a concert with the band "Olympic", the International Marathon and the music festival "Colours of Ostrava".

### Research and Development

The same as in previous years, the research and development activities of Czech Railways in 2005 primarily focused on supporting safety, speed, reliability and availability of railway transport services. Development activities continued to focus on the broader incorporation of railways into the system of suburban transport around major centres. Compared to the prior period, greater emphasis was placed on incorporating railway transport in the system of combined transport, and supporting logistics systems.

ČD, a.s.'s cost-reduction efforts impacted the amount of research and development expenses in 2005. ČD continued using external funding to the largest extent possible and reassessed several development trends in view of their resolution perspectives. A material portion of activities, mainly relating to infrastructure plans, was taken over by SŽDC while ČD, a.s. continues to be involved in the resolution thereof.

In co-operation with SŽDC, the Company was successful in applying for a contribution of CZK 2.48 million from the State Fund of Transport Infrastructure for studying purposes and expert activities. The contribution was used to finance the following engagements:

- The study of a remote control safety system roll-out on the railway tracks of the first and second transit corridors – the second stage and the technical specifications for equipping tracks with a remote control system;
- The study of a remote control safety system roll-out at the Prague railway junction;
- A technical and economic study regarding the use of equipment for higher security of tracks operated under the ČD-D3 regulation.

With assistance from suppliers, Czech Railways continued tackling issues within the National Research Programme. The "Architecture of the Train Position Locator for Safety Critical Applications" project was also completed for which Czech Railways obtained a contribution of CZK 2.3 million from the Czech Grant Agency. Also, the POLLCORRIDOR project – Polcorridor Logchain – An Inter-Modal System For Trans-European Freight Transfer Between the Nordic Region And South-eastern Europe within the EUREKA programme was finalised. Newly, ČD joined the TANDEM research and development programme of the Ministry of Industry and Trade, which is being dealt with in 2006. As a result, the Company obtained a contribution in the amount of CZK 1.8 million for a project called The Use of Digital Transmission Networks for the Operational Management and Increase of Security on Non-Corridor Tracks and CZK 1.313 million to solve the IDMAIN project – Distribution Expert Diagnosis System for Preventative and Critical Maintenance of Railway Cars. The Czech Grant Agency provided CZK 3.2 million for the "Local GNSS elements for the railway safety technology" project to cover the period between 2006 and 2008.

The balance of research and developments expenses of Czech Railways financed from own funds amounted to CZK 5 million.

In terms of international co-operation in the area of research and development in 2005, ČD's experts were actively involved in international project consortia organised under the EU's Framework Programmes supporting research and technological development. Projects under the Fifth Framework Programme (Interface and FACT) were completed. In the Sixth Framework Programme, employees joined projects in which ČD was involved in the past (EUROPAC, Integrail and other), including participation in the railway sector Networks of Excellence, namely the European Rail Research Network of Excellence (EURNEX). This Network of Excellence brings together European research institutions, universities and significant producers from the railway transportation sector. ČD is represented by its subsidiary VUZ. Its activities are divided into several areas by topic and ČD participates in several of them. The Company joined the Sixth Framework Programme either directly or through its organisational units or subsidiaries, mainly VUZ and ČD-T, and other. During the year, based on the published calls for project proposals, a number of meetings were held to set up international consortia of solution providers and subsequently the preparation of proposals for co-financing on the part of the EU. In 2006, the EU's Seventh Framework Programme will be launched, and ČD employees have been participating in its preparation, mainly within its membership or partnership in international organisations (UIC, OSJD, CER and other). Within UIC, ČD experts worked in various workgroups and actively co-operated in the Forum for Technical Research and Development.

In relation to the interoperability implementation in 2005, ČD focused on the analysis of impacts of Technical Specifications for Interoperability, approved on an ongoing basis, on ČD. This process was managed in compliance with a document entitled System Solution of Interoperability Application at Czech Railways.

Given the scope of documents and their impact, revising Czech translations of the first set of Technical Specifications for Interoperability (TSIs), relating to freight transport, operation and security, telematic applications in freight transport and noise, while continuing the analysis of possible technical solutions and measures to be gradually adopted in order to fulfil TSIs, represented the most important and challenging tasks.

In connection with telematic applications used in freight transport, ČD joined the preparation of the SEDP (Strategic European Deployment Plan Project), i.e. a plan for the implementation of TSIs within national railways, including technical solutions and timing thereof. In relation to noise, the analysis of possible technical solutions regarding TSI implementation continued with respect to the current rolling stock, including the preparation of noise values under TSI Methodology. A reference track was constructed in the Railway Research Institute as the main condition for the above measurements. In connection with operation and security, implementation of the ERTMS (European Railway Transport System) into the ČD environment continued in close co-operation with ČD-T. In addition to the implementation of noise-related TSI involving freight railroad cars, analysis of TSI impacts on the current rolling stock went on.

ČD has been actively involved in the work of AEIF (European Association for Railway Interoperability), which prepared the proposals for the second set of TSIs (safety in railway tunnels and persons with reduced mobility).

## Informatics

The trend of IT technology development in ČD's passenger transport continued in 2005. To boost the quality and effectiveness of work of train crews, the number of portable passenger ticket offices (POP) was increased by another 135 new POPs. At the year-end, an Internet ticket sale, eShop ČD, was launched as a significant innovation in dealing with passengers. Passengers can purchase tickets using an Internet application and immediately print it on his/her own printer. Various payment cards can be used for payment. The high security of payments is guaranteed by the use of 3D-Secure technology – ČD was among the first entities in the Czech Republic to apply this technology. The Company continued developing the corporate system of chip cards, whose employee stage was ready for a rollout at the end of the year. The Company continued implementing the passenger transport data warehouse technology (PRM IS – DTOP module). This allows defining queries related to the collected passenger transport data. Data is available after the shift ending in the passenger ticket office.

The SAP R/3 system modules were further developed. In 2005, the supplier, ČD-T a.s., fulfilled its solution commitments with respect to five modules (IS-U/EDM, RE, PM, CO and CES).

In the freight transport segment in 2005, the Company launched day-to-day operations of Central Railcar Control for cars of the T, Ta, H, Ha, I, G, Ga type, with other types gradually becoming part of this process. The Central Railcar Control centre was built in Česká Třebová. The CEVIS information system was gradually replaced by a more up-to-date application, WWW IS CEVIS. The CEVIS system still provides information about the status, movement, transfer and location of freight cars on the network. In addition, the application can be now run through the Internet Explorer web environment. At the 2005 year-end, review operations of the new Central Freight Cash Office application began; the new application should fully replace the current APM NP application. Transition to the new platform will facilitate improvement of the content and on-line availability, use of new transportation technologies, simplified administration, distribution of changes and also the availability of other information systems. At the same time, all applications were prepared for the cancellation of the main cash office APM HP at Junction Railway Stations. The implementation of data warehouse technology in freight transport also continued (PRM IS – DTNP module).

With respect to operational management, the resolution of KADR and KANGO information systems began. KADR addresses the allocation, sale and use of railway capacity. KANGO replaces SENA IS, including solutions and replacement of complicated links, with ASO and CEV. The data warehouse technology principle was used for the "railway station operation and performance module" (ADPV). The main objective is to replace the TP 412 and TP 417 tasks, which will gradually be taken out of operation, and expand its functionality.

In context of the railway line's functionality, the Company continued developing application software for railway routes based on Intranet technology, and implementing graphic support of passport information systems, data-entry in these systems, and Map Portal implementation. The IS operating documentation in selected operational units was initiated. The development of new application called the Evidence of Performance and Attendance of Railroad (EVYDO) started and is developed as a web application where focus is placed on the recording of railway infrastructure performance.



**Investments**

ČD's major investments relate to railcars. The investments involved the supply of three direct-current electric three-car trainsets of the 471-Class primarily intended for suburban transportation in the key metropolitan area of Prague. The revamping of ten diesel passenger coaches of the 852 and 853 classes to the 854 class diesel coaches brings notable progress in the quality of provided services. The coaches offer a substantially higher level of culture of travelling and require much lower operating and maintenance costs. The enhanced culture of travelling, lower operating costs, and adjustments enabling the transportation of physically handicapped people are offered in the 814-Class railcar and the 914-Class locomotive. A new 814-Class is currently being developed by revamping railcars of the 810-Class and the 010 trailer to a twinset of the 814+914 classes. The new railcar is not required to go around a trainset in turning stations, which further reduces the costs. Based on this railcar, ČD is considering modernising a higher number (about 100 pieces) of the 810-Class railcars and 010 trailers in the upcoming three years.

The modernisation of the alternating current electric unit of the 560-Class involved the replacement of aggregates in one unit and renovation of the interior. The unit is used in suburban transport around Brno.

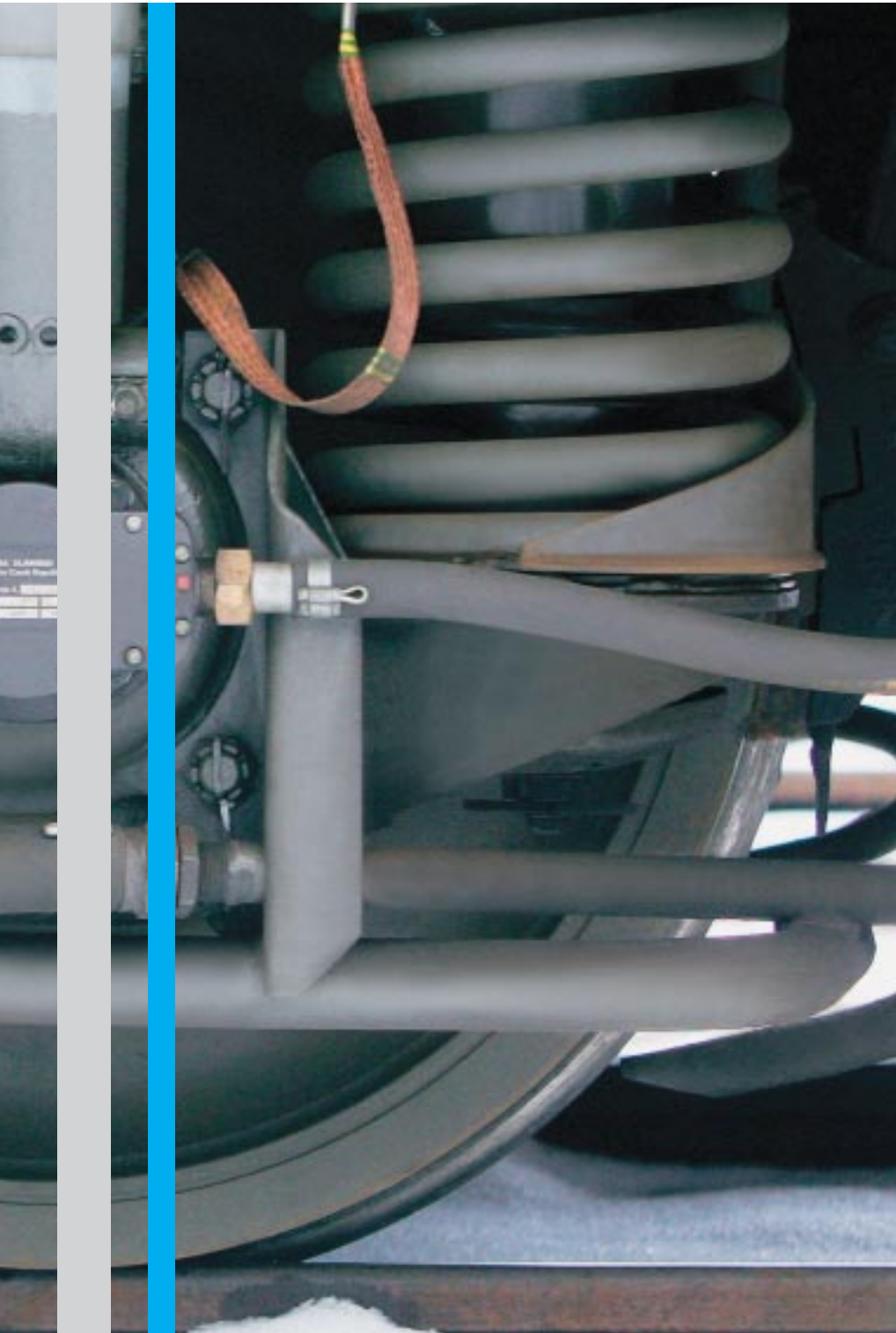
The revamping of the Apee and Bpee coaches involved installing air-conditioning in one first-class car of the Apee class and one second-class car of the Bpee. These coaches are employed in EC trains to Warsaw. The modernisation of the Aee coach involved the addition of air-conditioning. It is the last coach of this class which has not yet been modernised. It is used for long-distance passenger transport on local routes.

The modernisation of 714 locomotives required two last supplies, which were made in 2005. This process involved the revamping of a 735-diesel locomotive to a double-aggregate 714 locomotive used for shunting in passenger and freight transport. Two 753 locomotives were modernised during the 755-Class locomotives project, whereby the engine set was replaced, bringing about substantial cost-reduction in the operation of locomotives (lower consumption of fuel, lubricants, lower maintenance). These locomotives are used mainly in freight transport.

Within the modernisation of the Zaes railway cisterns, heat isolations were performed of the cistern boiler in order to reduce heat consumption in heating during unloading of heavy oil products. A total of 85 modernised vehicles were supplied. The revamping of 69 Res freight railcars to Rils railcars largely involved the installation of wagon sheet in the platform railcar, thereby protecting transported goods from weather impacts; this trend is required by customers. Regarding the modernisation of high open vehicles of the Eas-u class involving mainly the installation of a movable cover protecting goods from weather impacts, 313 modernised Tams railcars were supplied.







### Employment Policy and Social Programme

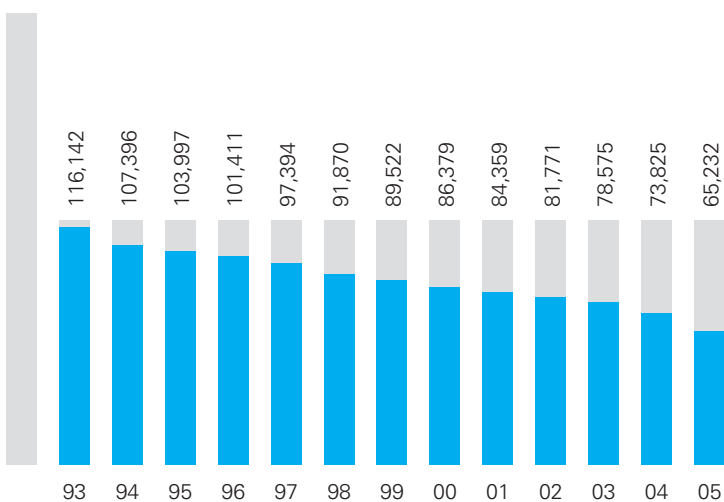
During 2005, Czech Railways continued to implement the measures adopted in order to enhance their economic position and performance. Measures in the human resources area involved an on-going optimisation of the number of employees aimed at improving age and professional levels while maintaining staff effectiveness.

Czech Railways also continued in its contractual co-operation with selected vocational schools, high schools and universities in training their graduates – future employees of the Company – in order to attract young staff members. ČD has entered into general contracts on co-operation with eight universities and fourteen high schools. The subject matter of these contracts is professional education at both the theoretical and practical levels, collaboration in scientific and research programs, application of the latest scientific and technological achievements to practical operation, participation in the preparation of school curricula, etc. The Company's involvement in training and lifetime education is also of significance as Czech Railways assists in defining topics for bachelor, final and postgraduate theses.

Czech Railways also saw to the observation of effective legislation and regulations in the sphere of work safety and health protection at work, assisted by the trade union bodies and provided for improvements of working and social conditions of its employees as well as health protection in the form of preventative care and therapeutic trips.

Year-on-year, the average headcount of ČD recalculated to full time employees dropped by 8,593 people (from 73,825 to 65,232). The physical headcount was 62,438 people as of 31 December 2005, down year-on-year by 9,557.

### Development of the Average Headcount of ČD, a.s. Recalculated to Full Time Employees in 1993 to 2005 \*)



\*) Figures for the period from 1993 to 2002 relate to the state enterprise Czech Railways.

In order to mitigate adverse social implications of the downsizing process following the transformation of Czech Railways, the Company continued to apply the Supplementary Social Programme of Czech Railways, approved by the Czech government, in 2005. The programme comprises the following issues above the scope of legal regulations:

- provision of severance payments in connection with the transformation under Government Decree No. 322/2002 Coll.;
- tenancy arrangements related to apartments and apartment houses;
- reimbursement of fares and commuting expenses of employees;
- other social benefits; and
- re-qualification of employees.

The average wage included in wages and salaries netted of any other payroll costs amounted to CZK 19,411 at Czech Railways in 2005. The nominal increase from 2004 was 5.1 percent.

In line with the effective legal regulations, the Company used the Social Fund of Czech Railways during 2005 in favour of ČD's employees, namely for the following purposes:

- Improvement of the working environment;
- Contributions to cultural and sports events and recreation;
- Catering contributions; and
- Social assistance, etc.

There are six trade union organisations operating within Czech Railways, both multi-disciplinary and representing a single professional group of employees. The corporate collective agreement regulating individual and collective relations between the employer and employees as well as the relationship between the trade unions and employer was entered into on 1 June 2005.

In 2005, the Board of Directors prepared and approved the Ethical Code of Czech Railways. The Ethical Code represents a set of ethical principles, standards and requirements binding for ČD's employees. This Code voices the ethical values of the Company, its visions and mission.

#### **Railway Healthcare**

The railway healthcare system provides for comprehensive company preventive care for the Company's employees as well as for employees of external employers, diagnostic and medical care for railway employees with the possibility of supplementary provision of the above service to external entities. The railway healthcare systems consists of health care for both inpatient and outpatient hospital levels.

The railway hospital in Prague and five railway health centres (in Pilsen, Nymburk, Česká Třebová, Olomouc and Ostrava) offer easily accessible comprehensive centralised services rendered by highly qualified personnel specialised in various medical disciplines, experienced in the provision of company preventive care to enterprises from miscellaneous industries.



## The Company and the Environment it Operates in

### International Liaisons

By active participation in the activities of international organisations and by successfully developing bilateral and multilateral relationships, Czech Railways significantly contributed to the creation of favourable conditions for the integration of the Czech railway system into European structures, and established a solid basis for enhancement of ČD's competitiveness within the European Union and in the new environment to be established after full application of European railway legislation.

The interests of Czech Railways were pushed forward primarily in two major international railway organisations: Community of European Railways (CER) and the International Railway Union (UIC).

ČD's involvement in the activities of the Community of European Railways (CER) was evidenced by promoting its opinions in documents of pan-European importance and validity. Czech Railways are also successful in making maximum use of CER's active support when negotiating important issues related to ČD's development in working groups of the European Union.

In 2005, the reform of UIC, on whose preparation and realisation ČD actively participated, was completed. The objective of the reform was to adapt UIC to major changes in the European railway transport system and the anticipated EU expansion by other Eastern European countries. Following the reform, UIC especially focuses on global activities. As far as the resolution of railway-transport-related technical issues is concerned, UIC has been closely co-operating with the European Railway Agency (ERA) as well as the European Commission, which gradually start dealing with this issue.

Czech Railways are represented in the Board of Management of the European Association for Railway Interoperability (AEIF). Its representatives advocated for ČD's interests in preparing Technical Specifications of Interoperability for conventional railway transport.

The involvement of Czech Railways in the Organisation for Co-operation of Railways (OSJD) was also notable. ČD chairs the fifth OSJD Commission for Technical Issues in this term of office.

A number of significant international events were held in 2005 and Czech Railways participated:

- The Eurailfreight 2005 Congress in Munich, which included a round table regarding the development of freight transport in Europe, where the Chairperson of the Board of Directors and CEO of ČD, Josef Bazala, held a presentation;
- A bilateral top management meeting between ČD and ÖBB Holding about the perspectives of mutual co-operation on a liberalised market;
- A summit of top representatives of European railways in St. Petersburg;
- The meeting of CEOs of Railways of the Visegrad Four countries in Hungary;
- The RailTech trade fair in Dortmund, where the Chairperson of the Board of Directors and CEO of ČD, Josef Bazala, participated; and
- A conference about high-speed Eurailspeed transport in Milan.

In the area of bilateral relations, ČD focused on the preparation of new contracts on border transport between ČD, the Polish PKP and Austrian ÖBB. The contracts fully comply with the terms and conditions imposed by the European railway legislation and will supersede the existing Border Arrangements. The agreement between ČD and the Slovak operator ŽSR of 1997 was updated in 2004 and a new contract will be prepared once the reorganisation process at Slovak Railways is completed.

### Environmental Protection

Environmental protection, one of the fundamental prerequisites of the existence of a human community, involves a purposeful activity regulated by international conventions. The European Community considers this issue a priority and has developed an extensive system of legal regulations to control the issue.

Minimal environmental impact is one of the generally acknowledged advantages of railroad transportation. In comparison with road transport, railways need a substantially lower portion of land for the transport of the same volume of goods; they consume less energy and produce less pollutants and less noise. At the same time, they are much safer and resistant to external influences. Railroad transport has not yet fully employed its technological potential and is the only mode of transport which provides for the transport of persons and goods compatible with the principles of sustainable development throughout densely populated Europe. However, harmonisation of conditions applicable to the transport business and internationalisation of external freight costs must be provided for in order for railways to be able to compete in the transport market.

Czech Railways pays substantial attention to environmental protection. Its environmental efforts are focused on three areas:

- Removal of effects of rail transport on the environment in previous years;
- Focus on environmental issues in projects being prepared; and
- Reduction of pollution from current sources of pollution.

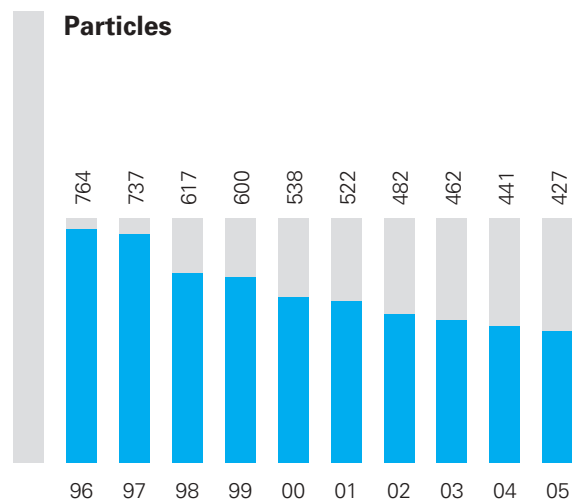
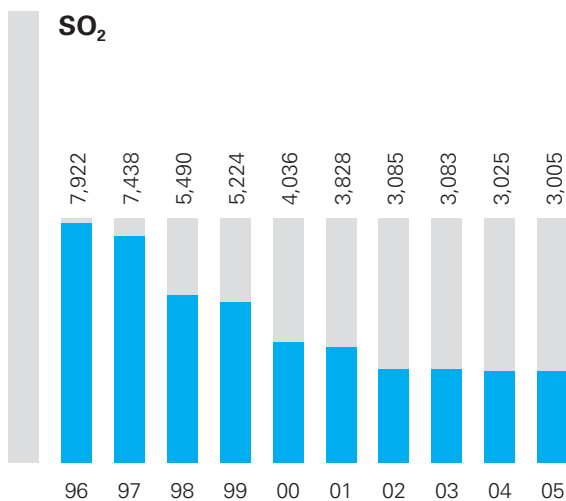
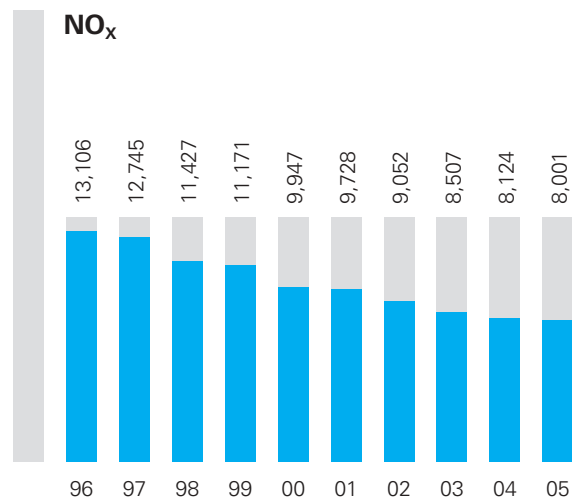
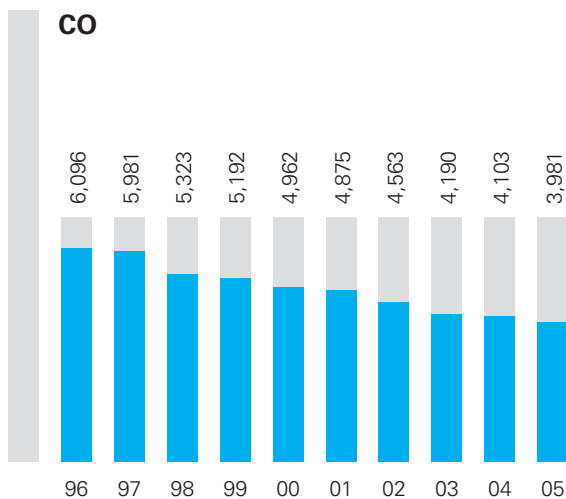
ČD has been making every effort to reduce its consumption of potable and service water and strives to reduce air pollution, protect soil and water, reduce noise and care for the greenery along the tracks. ČD is one of a few companies in the Czech Republic to have introduced an internal accounting system which enables the monitoring of costs spent on environmental conservation. An environmental audit is carried out annually at ČD and its results are used for statistical purposes as stipulated by law. In addition, a basic information system based on EisProW software, related to the protection of individual environmental components, has been implemented. This system has been fully used on a long-term basis and its network version is scheduled for rollout in 2006. ČD continued to implement the ISO 14001 environmental management system in 2005. In late 2005, the system was successfully recertified at the Liberec railway junction composed of the Rail Vehicle Depot, the railway station and the Infrastructure Administration (SDC) and was further expanded to include the operational centre of the Funicular of Horní Hanychov – Ještěd, Horní Růžodol and Debrž u Mladé Boleslavi. In terms of international co-operation in resolving environmental issues arising from railway transport operation, mention should be made of ČD's participation in UIC's expert groups for the environment and OSJD's expert groups for the environment and combined transport.

### Development of Air Pollutants Caused by Railway Transport (tonnes) \*)

Year	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
CO	3,981	4,103	4,190	4,563	4,875	4,962	5,192	5,323	5,981	6,096
NO <sub>x</sub>	8,001	8,124	8,507	9,052	9,728	9,947	11,171	11,427	12,745	13,106
SO <sub>2</sub>	3,005	3,025	3,083	3,085	3,828	4,036	5,224	5,490	7,438	7,922
Particles	427	441	462	482	522	538	600	617	737	764

\*) Figures for the period from 1996 to 2002 relate to the state enterprise Czech Railways.

## Development of Air Pollutants Caused by Railway Transport (tonnes)



In 2005, the costs spent on environmental protection totalled more than CZK 426.5 million, of which CZK 164.7 million were investments (net of costs of corridor construction). ČD also cut the medium sources of air pollution by seven, and technological sources were reduced by nine. Waste production went down by 14,000 tonnes year-on-year.

### **Social Corporate Responsibility of České dráhy, a.s.**

České dráhy, as one of the most important businesses in the Czech Republic, believes in the social corporate responsibility for the development of the Czech Republic and the need to be involved in and support projects and charities which have society-wide implications.

#### **Charity Projects**

In partnership with the Plaváček charity fund and through its marketing co-operation, we have included children's performances at České dráhy's social events. Thus, the children are provided with opportunities to showcase their talents. The fund also supports the project "Vitr do plachet" (Wind in Sails) which enables many gifted children without parents to fulfil their dreams. The children also have the opportunity to participate in active, positive social events and they experience open and friendly acknowledgement and support from the adult world, which will definitely contribute to their having a fruitful life in the future.

The same group of children is the focus of an on-line auction of paintings made by children from children's homes. The project called "Vlak štěstí a naděje" (the Train of Happiness and Hope) is organised by České dráhy and Siemens under the auspices of the Federation of Children's Homes in the Czech Republic. The pictures were offered for a single call price of CZK 300, and the auction of each picture took seven days after the first bid. Almost CZK 250,000 was credited to bank accounts of children's homes in 2005.

The cultural life in smaller towns has been supported by a mobile cinema on rails, entitled the "cinema-train". The cinema-train is a joint project between České dráhy and the organisers of the Zlín International Film Festival for Children and Youth. Several weeks before the festival, pre-school and school-age children are allowed to see films for free, even in places where there is no cinema.

#### **Environmental Policy**

The social corporate responsibility of České dráhy also includes the attempt to reduce its direct and indirect impact on the environment. On the basis of the company's development and as a result of its environmental awareness, the company's management has announced the introduction of an environmental policy that aims mainly at:

- Complying with the effective environmental legislation and other requirements regulating the company's activities;
- Creating conditions for the introduction and further enhancement of a better environmental management system and an environmental profile for the company;
- Integrating criteria for environmental protection in all activities including business activities;
- Preventing pollution and decreasing environmental pollution over the long term, which includes minimising the production of waste;
- Optimising the use of natural resources, raw materials, water and energy;
- Creating good conditions for restricting danger in the workplace and ensuring safety at work;
- Creating good conditions for training employees in environmental issues;
- Making regular and open evaluations of the fulfilment of environmental aims and making our partners and the general public aware of the results of our environmental policy; and
- Co-operating in reducing indirect impacts on the environment resulting from the joint activities of České dráhy, a.s., and its suppliers and partners.

## Activities of the Consolidated Companies

### ČD-T

The most significant event of 2005 was the conclusion of the contract between ČD, a.s. and ČD-T a.s. for the contribution of the Telematika branch to ČD - Telekomunikace a.s. By this act, ČD realised one of its strategic objectives as of 1 April 2005, i. e. to gain a majority stake in ČD-T, whereby it wanted to gain control over the high-capacity optic network, increase the efficiency and cut costs of ČD, create conditions for further development of IT technologies and telecommunication for ČD and to create a strong company on the application, system integrator and telecommunication market which would be capable of standalone existence on the IT technologies, telecommunication and telematic service market.

Immediately after the contribution, ČD started to implement the integrated management system (IMS), which includes quality management subsystems according to ČSN EN ISO 9001:2001 (QMS), environmental impact management according to ČSN EN ISO 14001:2005 (EMS) and security and health protection at work management OHSaS 18001:1999 (SMS).

Still in 2005, ČD-T obtained certificates for all three implemented systems. The certificates confirm that ČD-T is a company with processes that guarantee its customers high-quality products, its employees healthy and safe working environment and environmentally-friendly operation of the company. ČD-T now meets the requirements to be able to participate in numerous public-sector tenders.

ČD-T is primarily engaged in providing comprehensive telematic services, operating, maintenance and repair of IT equipment, telecommunication equipment and network, advisory, system integration, development and operation of information systems and data processing and storing.

Based on a contractual relationship, ČD-T acts on behalf of ČD, a.s. as the railway operator, in issues regarding communication equipment for the transfer of information pursuant to Section 9 (e) of Regulation No. 177/1995 Coll., of the construction and technical rules of railways as amended with the exception of radio and clock equipment, circuit TV and the fire alarm.

In line with the wide range of its activities, ČD-T offers a wide spectrum of products and services. They include network and management information systems (SMIS), SAP, transport information systems (DIS), operating of applications (PA), infrastructure repairs, electronic communications and advisory.

In order to increase productivity, ČD-T decreased the number of employees by 12.5 percent in 2005. The biggest decrease in staff occurred as of 1 April 2005, i.e. in connection with ČD, a.s.'s contribution.

ČD-T has research and development activities as a sub-contractor, participates on projects aimed at the development of railway transport business and railway transport route where ČD, a.s., is both the subject and the addressee and it owns activities which relate to its subject of business, principally SW application development. In freight transport, ČD-T participated in international projects POLCORRIDOR LOGCHAIN (intermodal connection between north and south-east Europe) and TREND (European freight transport interoperability). An important activity of ČD-T is the implementation of the GSM-R system into the ČD system. Traditionally, ČD-T has devoted the most development capacity to SW applications, such as POVOZ (monitoring of the movement of vehicles and freight on the transport network), ÚDIV (freight car management), CNP (central freight cash desk) and SPONA (search of freight transport connection).

In 2005, ČD-T's profit before tax amounted to CZK 28.797 million.



**TSS**

Traťová strojní společnost, a.s. (TSS), co-operates in the maintenance, modernisation and building of corridors and other railway tracks. Part of the activities is oriented abroad. Repair centres of TSS provide maintenance and repairs of machines and carry out renovations usually related to increasing the useful lives of machines and equipment. TSS has obtained the EN ISO 9001:2000 quality management certificate in "Work of machines and mechanisms in construction and maintenance of railways".

The principal goals of TSS in 2005 involved making profit, implementing organisational changes aimed to limit responsibilities of plant directors and to decrease the number of employees, and realising the entrance of a strategic partner into TSS.

With effect from 1 November 2005, organisational change involving the transition from three-level to two-level management took place. The positions of plant directors were abolished and the responsibilities of TSS management were expanded due to the accountability for financial performance. The process of centralised management was completed and after HR and economic activities, also business, operating, repair and technological transport management were centralised.

Pursuant to the approved Project to form the subsidiary ČD - Traťová strojní společnost, a.s., and in line with the conclusions of the ČD Steering Committee dated 22 September 2004, strategic partner for TSS was selected in a tender. On 4 October 2005, the ČD Board of Directors approved ŽS Brno, a.s., as the winner of the tender.

In 2005, TSS's profit before tax amounted to CZK 31.3 million.

**VUZ**

The principal activity of Výzkumný Ústav Železniční (VUZ) is to provide services of accredited laboratory and other professional services in railway transport. A portion of the principal activity is research, development and expert work and, to a lesser extent, also the projecting and production of special equipment.

VUZ testing laboratory (ZL) performed testing in compliance with obtained accreditation and approved contractual terms in its six professional divisions – railway vehicles, energetics, management and security, infrastructure, materials, dynamic testing state. VUZ's significant customers primarily include ČD, SŽDC, Czech and foreign producers of railway vehicles. VUZ professional divisions (railway vehicles, energetics, management and security, infrastructure, materials and construction) fulfilled their contractual engagements. These primarily include expert activities, representation of ČD in international professional committees dealing with partial problems of railway technology, participation in national and international standardisation teams, participation in international projects, research and development projects and, to a lesser extent, projecting and production of special substances and equipment. Just like in testing laboratory, the most significant customers of professional divisions include ČD, SŽDC, Czech and foreign producers of railway vehicles and railway technology. In 2005, VUZ gradually met all necessary conditions and prepared documents to file an application for the status of authorised entity under Act 22/1997 Coll. to judge and assess compliance and assess the appropriateness of used elements, parts and subsystems regarding the interoperability of the European railway system with Czech Office for Standard, Metrology and Testing. Testing laboratory and the professional divisions took part in the preparation of the relevant documents. The application was filed at the end of 2005. In 2005, VUZ successfully completed the audit of Certification Body for Products (Certifikační orgán pro výrobky, COV), including the expansion of its activities relating to the prepared AO/NO activity and created the Certification Body for Quality Systems (Certifikační orgán pro systémy jakosti, COSJ), the accreditation of which is prepared for 2006. Test Centre Velim (Železniční zkušební okruh, ŽZO) focused on the testing of Siemens locomotives, Alstom entities, Talent entities for Railmotive, Talent entities of Bombardier, Siemens double-decker electric entities, a diesel locomotive of ČMKS and the testing of pilot projects European Train Control System (ETCS). Apart from these services, ŽZO focused on renovation, final inspection and homologation of ŽZO for the operating speed of 200 km/h. The improving of technical parameters of the supply unit made in stages continued.

In 2005, VUZ's profit before tax amounted to CZK 7.2 million.

### Balance Sheet

In the period from 31 December 2004 to 31 December 2005, the value of fixed assets of the Company grew by CZK 2.96 billion reaching CZK 41.69 billion, i.e. 83 percent of total assets. Current assets, which are composed of inventory, receivables and current financial assets, decreased by CZK 0.3 billion to CZK 8.24 billion, i.e. 16 percent of total assets in the period from 31 December 2004 to 31 December 2005. The value of the Company's equity dropped by CZK 0.4 billion to CZK 37.1 billion, i.e. 74 percent of total equity and liabilities. The Company's share capital was CZK 20 billion, i.e. 40 percent of total equity and liabilities. Liabilities increased by CZK 3.1 billion to CZK 12.7 billion, i.e. 25 percent of total equity and liabilities in the monitored period.

### Investment Activities of ČD

The plan of the use of internal resources for the acquisition of fixed assets (investments) followed the approved Business Plan of ČD for the year ended 31 December 2005 and was set at CZK 1,471.3 million. External funding from SFDI of the total investment activity plan for 2005 were stipulated at CZK 651.9 million. ČD received these funds for investments in its assets from SŽDC on the basis of a contract entered into with SFDI and SŽDC. The credit plan of CZK 2,967.6 million was designated for the settlement of new and upgraded rail vehicles for passenger and freight transport. External funding from EUROFIMA of CZK 1,394.3 million were designated for the funding of the 1st and 2nd class passenger coaches, series 471 electric train sets and prepayments for series 380 three-system electric locomotives.

In 2005, investments were drawn in the amount of CZK 6,098.3 million, i.e. 94.0 percent of the Business Plan.

### Investment Activities (CZK million)

	2005	2004	2003	Index 05/04
Total investments	<b>6,098.3</b>	5,484.0	2,683.1	1.11
– of which: passenger transport	<b>3,174.9</b>	2,488.8	1,081.6	1.28
– of which: freight transport	<b>485.4</b>	289.5	4.7	1.68
– of which: infrastructure	<b>1,573.8</b>	2,581.0	1,191.3	0.61
– of which: other	<b>864.2</b>	124.7	405.5	6.93
Investment grants	<b>443.9</b>	1,149.6	1,053.3	0.39
Internal investments	<b>5,654.4</b>	4,334.4	1,629.8	1.30

### Profit and Loss Account

The results of operations of ČD, a.s., for the year ended 31 December 2005 are composed of total sales and revenues of CZK 45,428 million and total expenses of CZK 46,018 million including accounting depreciation charges of CZK 2,395 million. Compared to the business plan, sales and revenues were lower by CZK 1,019 million, i.e. the plan was met at 97.8 percent. Total expenses were lower by CZK 1,119 million, i.e. the plan was met at 97.6 percent.

## Funding

The funding of ČD was provided from the finance obtained from the Company's activities, from budgetary funds, loans guaranteed by the government and EU funds.

The contribution to compensate for the operator's loss on the operation of public passenger railway transport, the compensation of the demonstrable loss on the student fare, Supplementary Social Programme and costs for the prevention of crises were provided to ČD from the state budget through the Czech Transport Ministry and from the budgets of the individual regions pursuant to the contracts entered into.

The grants designated for the funding of the construction, modernisation, repairs and maintenance of the transport route in the public interest were provided to ČD by the State Fund of Transport Infrastructure and Správa železniční dopravní cesty s.o. (the Railway Infrastructure Administration) on the basis of the contracts entered into.

Further, ČD was provided with non-investment grants of the Transport Ministry for research and development projects and of the Ministry of Education, Youth and Physical Education for the support of a selected research and development project within the EUREKA scheme.

## Risk Management System

In 2005, the Company used hedging derivatives to a limited extent and does not plan to expand their use in the nearest future for the following reasons:

- Hedging against the foreign exchange rate risk has been provided for in the form of "inherent hedging" for several years. This means that regular monthly income of ČD denominated in foreign currencies (namely in EUR) is translated into CZK only after the settlement of all expenses in EUR in the relevant month, including foreign currency debt service. Foreign currencies are translated on the basis of a special arrangement with the bank whereby the most advantageous exchange rate available in the particular time zone is applied. In 2005, the share of EUR expenses in EUR income was approximately 21.1 percent but is expected to grow substantially due to the initiation of repayment of investment loans denominated in EUR; and
- Hedging against the interest rate risk is effected in a very conservative way, all our current investment loans and similar other than internal financial resources (e.g. EUROFIMA) are covered, including interest, by a state guarantee – hedging against the exchange rate risk would therefore have to be required and approved by the creditor. Given the low volatility of interest rates on the PRIBOR and EURIBOR basis, the Czech Finance Ministry as the creditor did not require hedging against interest rate or exchange rate risks. Interest rates are calculated on the floating basis as equal to EURIBOR + margin.

The price, credit and liquidity risk and risks associated with cash flows are dealt with as follows:

### Price Risk

In 2005, the cash flow in passenger transport was exposed to limited risk as income was hedged primarily based on applicable contracts with regional authorities and on continuous drawing from the Transport Ministry budget even though the contract for the state transport needs was not entered into. Passenger transport fees and fees from foreign railway administration were fully collected by Odúčtovna přepravních tržeb (Transport Sales Clearing Centre, OPT) on an ongoing basis. Extraordinary transports were only carried out after a prepayment was made. ČD carries the business risk in some regions as a result of an underfinanced obligation of the public service and the compensation for the loss on the student fare, for example, the contracted payment from regional authorities amounted to CZK 4,362 million but the calculated loss of ČD amounted to CZK 4,816 million while the 2005 Business Plan included the loss of CZK 4,540 million. This difference represented ČD's risk and had to be funded by ČD. The same situation applies to the loss-coverage by the Czech government. The risk arising from the participation in the Integrated Transport System is connected with the fact that if the number of passengers (obtained from the transport survey) using railway changes significantly, the financial relations will not be adjusted to reflect the change in the number of passengers. The contract on the public service commitment was entered into with the State in December and with regional authorities between January and July 2005; 24 percent of the obligation to provide basic transport services was covered by the State and 76 percent by regional authorities.

ČD's goal in freight transport was to change customer rates to contracted transport prices and the conclusion of more multi-year contracts, chiefly with significant ČD customers. Pursuant to the "Pricing Policy in ČD's Freight Transport", ČD stabilised and, where possible, increased the prices in 2005. The price policy had to be adjusted to the situation on the transport market, the ever-growing competition of private carriers and the excessive number of road carriers.

Acquisitions, reconstruction and modernisation of vehicles and their funding from external resources are usually associated with engagements exceeding specified limits. To optimise the prices ČD follows the provisions of Procurement Act No. 40/2004 Coll. The prices established by reference to the above statute are final and are not subject to any other changes by suppliers (e.g. due to inflation in the relevant industry, etc.).

In order to establish an optimal level of prices for repairs and reconstruction, ČD also uses worn parts that can be fixed (e.g. coupled axles, carriages) from vehicles to be disposed of. This procedure reduces the costs of such repairs and reconstruction.

#### **Liquidity Risk**

The "Financial Committee" has been established on the level of the Finance Division Director to assess the liquidity and cash flow development on a weekly basis as compared to the income and expense plan and the approved "ČD Business Plan" for the current period. These analyses serve as a basis for making decisions on the settlement of payables, drawing of overdraft loans, etc.

Overdraft facilities of CZK 700 million and CZK 640 million are available with Komerční banka, a.s. (KB) and CZK 600 million is available with ČSOB, a.s., in the case of a sudden drop in cash flows. In 2005, ČD used the overdraft facilities such that it ensured an even cash inflow and settled its payables using available funds during the year.

For the purposes of a short-term revaluation of cash on current accounts maintained by KB, ČD uses the benefits of cash pooling and short-term placements of income from transport on a term deposit account held at ČSOB, a.s., Praha.

#### **Credit Risk**

The Company carries out regular weekly monitoring of receivables and payables by individual company and default period during the whole fiscal year. Special attention is paid to receivables past due for more than 60 days. The Financial Committee led by the Finance Division Director meets once a month to deal with past due receivables with special attention paid to receivables past due greater than 60 days.

In connection with the above, ČD pro-actively applies the offsetting policy with special attention paid to receivables past due more than 60 days to improve liquidity and decrease the receivable and payable balances. In 2005, several distressed debts were assigned to entities which trade with receivables.

#### **Planned ČD Risk Management Instruments in 2006 and the Following Years**

In 2005 and in the following years, ČD will keep employing the above instruments, namely dealing with the income and expense items in line with the approved ČD Business Plan for 2006, inherent hedging and regular monitoring of the liquidity development with respect to receivables and payables.

ČD intends to commission an external law firm with the recovery of bad amounts and will use the possibility of ceding bad debt to entities specialising in trading with receivables.



Despite the complexity of its development from its formation in 2003 to date, ČD, a.s. has proven to be a stable part of the transport market both in the Czech Republic and the EU.

The development of ČD defined in the 'Strategic Development of ČD' is primarily driven by effective internal functioning of the organisation. The activities carried out during the first three years of ČD's existence as a joint stock company involved initiation and implementation of complex processes of internal transformation aimed at incorporating the standard entrepreneurial principles into the Company's management system. ČD will continue improving its management in the following years. Activities aiming to enhance the Company's business in the ever-growing competition are underway.

ČD's development stems from the Czech Republic's membership in the European Union. This fact requires ČD's transformation into a firm which would be an integral part of the EU internal market. The opening of the railway market to foreign competition brings significant risks, yet, at the same time, creates important opportunities (increased demand for transport, possibility to enter attractive foreign markets). ČD will strive to succeed in the competition and become an acknowledged transport company within the European transport environment.

The Company conducts its business in the competitive environment of the transport market. The passenger and freight transport market is characteristic of a very strong non-railway competition. In addition to ČD, the railway market has been served by an important group of third carriers since 1995, the competitiveness of whom is gradually growing. Moreover, the Czech railway market has been open to both local railway competitors and international freight transport and holders of licences for the operation of railway freight transport from any member country (with access to the selected network of nation-wide lines) since 1 May 2004.

Further opening of the Czech railway market should be coordinated with the development in other European Union countries. The European Union's intention is to build a common European transport area. The implementation of this intention started with the selected network of trans-European routes for freight transport called TERFN. After the expiry of the transitional period, the entire railway network in EU will open to international freight transport competitors in 2006 and the railway freight market is to be fully liberalised by no later than 2007 (the inland freight transport market will be open to competitors from other member countries). The railway passenger market is not expected to be open prior to 2008 to 2010 in the international segment.

The passenger railway transport segment is divided into two products: long-distance transport and regional transport. ČD will strive to provide for a competitive set of services whereby all crucial locations both inland and cross-border will be connected. ČD's efforts intended to defend ČD's position in the market call for the division of the long-distance passenger transport activities to the activities performed at standard and above-standard quality. International transport is to be performed primarily at above-standard quality.

ČD's performance in the regional passenger transport segment will be dominated by the discharging of the public service obligation. Competing foreign operators and multinational consortia operating in this segment in other countries are getting ready for entry into the Czech market. The intention of ČD is to build its business activities in this segment on cooperation with the entities ordering public services – the Czech regions. The aim is to focus the ČD strategy to bring the offered products nearer to the customer ordering the service or to the passengers.

Further plans in the freight transport segment evolve from structural changes in the freight transport's operation. The intention of ČD is clear intra-company profiling of a freight transporter (including the elimination of cross funding) and subsequent establishment of a ČD Cargo subsidiary.

In terms of business offering, ČD will focus on the provision of comprehensive services to our customers. In many cases, ČD freight transport will be one of the elements of the logistic chain of a shipment's journey between the sender and the addressee. ČD will therefore concentrate on enhancement of the quality of transport activities and adherence to the contracted quality parameters. Introduction and certification of the quality management system under ISO for selected activities is an integral part of our plans in the freight transport segment. We consider combined transport a highly perspective business segment within freight transport.

In providing for the operation of the railway infrastructure, ČD's ultimate goal is to fulfil the obligation arising from the contract entered into with SŽDC pursuant to Act No. 77/2002 Coll.

ČD's internal development will focus on the support of the above-mentioned issues – organisation development, IT technology development and further development of the Company's economy will be prepared and carried out pursuant to the business and strategic goals with special attention paid to further improvement of transparency.

## Issued Share Capital

### Amount of Subscribed Capital

The Company's share capital amounting to CZK 20,000,000,000 is fully paid up. The share capital consists of 20 ordinary shares with a nominal value of CZK 1,000,000,000 each. ČD's stock takes the form of registered materialised securities with a negotiability restricted by the previous approval of the government.

## Shareholders

The Czech Republic is the sole shareholder of the Company.

The state exercises the shareholder rights in Czech Railways through the Steering Committee. The Steering Committee is composed of three employees of the Czech Transport Ministry and one employee from each of the following Ministries: Finance, Defence, Industry and Trade, and Regional Development appointed by the government.

### Steering Committee of ČD, a.s. as of 31 December 2005

**Antonín Tesařík**, Chairman of the Steering Committee; First Deputy to the Transport Minister of the Czech Republic  
Authorised by Resolution of the Czech government No. 1096 of 6 November 2002

**Vojtěch Kocourek**, Vice-Chairman of the Steering Committee; Deputy to the Transport Minister of the Czech Republic  
Authorised by Resolution of the Czech government No. 1096 of 6 November 2002

**Jaroslav Král**, member of the Steering Committee; First Deputy to the Minister and Managing Director of the Office, Ministry of Regional Development of the Czech Republic  
Authorised by Resolution of the Czech government No. 1166 as of 24 November 2004

**Jiří Havlíček**, member of the Steering Committee; Director of the Cabinet of the Minister of Industry and Trade of the CR  
Authorised by Resolution of the Czech government No. 1485 as of 16 November 2005

**Jaroslav Soušek**, member of the Steering Committee; Divisional Director, Transport Ministry of the Czech Republic  
Authorised by Resolution of the Czech government No. 732 of 10 July 2002

**Pavel Štalmach**, member of the Steering Committee; Deputy to the Defense Minister of the Czech Republic  
Authorised by Resolution of the Czech government No. 1166 of 24 November 2004

**Jiří Volf**, member of the Steering Committee; Deputy to the Finance Minister of the Czech Republic  
Authorised by Resolution of the Czech government No. 732 of 10 July 2002

### Changes in the Steering Committee of ČD, a.s.

Resolution of the Czech government No. 1485 as of 16 November 2005 cancelled the authorisation of Martin Pecina.

## 057 The Supervisory Board's Report

In 2005 the Supervisory Board of České dráhy, a.s. met at eleven regular meetings and two extraordinary meetings. Members of the Board of Directors and directors of relevant departments were included among guests invited to participate in these meetings as and when required.

The Supervisory Board oversaw the appropriate execution of the competencies of the Board of Directors and the business activities of the Company on a regular basis. It mainly took interest in the activities of the Board of Directors and the process of task fulfilment by this body.

Under the provisions of Section 47 of the Articles of Association, the Supervisory Board granted, after due consideration, the Board of Directors a number of prior consents. The Supervisory Board granted the Board of Directors its consent to sell a defined portfolio of immovable assets; it granted its consent to the sale and purchase of assets between ČD, a.s. and Správa železniční dopravní cesty, s.o. to adjust property relationships under Transformation Act No. 77/2002 Coll., on the joint stock company České dráhy.

Inter alia, the Supervisory Board granted its prior consent to call a public tender for the supply of WLABmz cars and considered the possibility to employ WLABmz sleeping cars in the 2006/2007 timetable, furthermore, it granted its prior consent to invite a public tender for the repair of certain construction bodies and spare parts of railway vehicles for the 2 quarter of 2005 to 2010 and its prior content to call a tender and to enter into a contract with the selected tenderee to purchase 30 direct-current double-decker electric train sets of the 471 series.

Furthermore, the Supervisory Board granted the Board of Directors its consent to call a tender for a finance lease of revamped 854 series diesel rail cars, to invite a tender to revamp 250 railway freight cars of Falls series, to call a tender for the supply of railway vehicle washer in the operating unit Odstavné nádraží Praha jih (Depo Prague South) and to invite a tender for the best proposal to execute a contract whose subject-matter will be the purchase of 700 obsolete cars for the physical disposal thereof. Furthermore, the Supervisory Board granted the Board of Directors its consent to call a tender for the supply of electricity for 2006, prior consent to call a tender for coke for 2006 and prior consent to call a tender to clean tank cars for ČD, a.s.

The Supervisory Board granted the Board of Directors its consent to enter into contracts with ČD - Telematika a.s. to provide telecommunication services and repair services for České dráhy, a.s. for 2005 and a general prior consent to enter into contracts for the supply of services with ČD subsidiaries where ČD holds a majority stake, including contracts with consideration exceeding CZK 20 million. The Supervisory Board also granted its prior consent to execute a contract for liability insurance against damage caused by the operation of nation-wide railway transport made between Česká pojišťovna a.s., Kooperativa, pojišťovna, a.s., and České dráhy, a.s. and a consent to conclude the Amendment to the Contract on Overdraft Account with Československá obchodní banka, a.s. and the Amendments to the Contract on Overdraft Account with Komerční banka, a.s.

At several of its meetings, the Supervisory Board tackled the preparation and entering into operation of 680 series entities, discussed the trial operation of RA 1 diesel unit of 835 series. The Supervisory Board tackled the analysis of the current status and the principles of the modernisation of rolling stock between 2005 and 2012, the modernisation and funding of railway vehicles for regional transport. The Supervisory Board also took interest in the prepared projects of the modernisation of railway vehicles for regional transport. The Supervisory Board dealt with the fulfilment of organisational changes and regulations of the operation and maintenance of railway vehicles and the measures taken to speed up the realisation of the prepared projects to modernise the rolling stock.

The Supervisory Board tackled the project to use railway for transport in Prague and nearby locations, it also discussed the plan to create Railway Fire Brigade. The Supervisory Board also took interest in the construction of ČD centres, principally that in the station Praha Holešovice.

The Supervisory Board paid special attention to the Business Plan and Development Strategy prepared by the Board of Directors. Subsequent to due inspection of the materials, it gave the Board of Directors its comments and proposals of additions. It assesses the fulfilling of the 2005 Business Plan on a regular basis. The Supervisory Board also inspected the economic performance of the Company in 2005. The Supervisory Board also tackled the intelligent reporting project aimed at presenting an interim progress report on the Company's performance to the Supervisory Board and the Company's management on a monthly basis. The Supervisory Board took special interest in the property management and its efficiency.

Furthermore, the Supervisory Board tackled the project of Grandi Stazioni, s.r.o. to modernise Hlavní nádraží (Central Station) in Prague, it also tackled the railway station Praha – Smíchov and granted its consent to establish a joint venture aimed at preparing, implementing and developing the Smíchovské nádraží site. The Supervisory Board also contemplated the developing of Praha – Masarykovo nádraží (Masaryk Station), Plzeň hl. n. (Pilsen Central Station) and other revitalisation projects –Teplice v Čechách, Ústí nad Labem, Praha – Holešovice, Havlíčkův Brod, Sokolov, it tackled the developing of Františkovy Lázně, Přerov, Praha – Dejvice, Praha – Krejčířka and Praha – Žižkov sites, and it also granted its prior consent to the plans of modernisation of railway buildings at Praha hl. Nádraží, Karlovy Vary hor. nádraží (upper station) and Mariánské Lázně. The Supervisory Board also contemplated the developing of České Budějovice, Kolín, Praha – Čakovice, Praha – Libeň, Karlovy Vary dolní nádraží (lower station), Hradec Králové, Chomutov, Liberec, Most, Nymburk, Poděbrady, Praha – Braník and Praha – Krč sites. The Supervisory Board paid special attention to the ČD project of providing passenger transport in Prague and Central Bohemia and, at several meetings, it contemplated the Churchill Square project of CR-City, a.s.

The Supervisory Board discussed the attitude of ČD to the planned privatisation of Cargo Slovakia, a.s. and backed an active participation of ČD in the privatisation.

The Supervisory Board paid special attention to organisational changes in ČD transforming it into a holding, the formation of ČD subsidiaries in 2005, the plan to form ČD travel, s.r.o. and the plan to form Dopravní vzdělávací institut, a.s. It also discussed the situation and current activity of Traťová strojná společnost, a.s., its Business Plan and the solution of the current situation of Traťová strojná společnost, a.s., the activities of ČD travel, s.r.o. and the current situation of RAILREKLAM, s.r.o.

The Supervisory Board also addressed the issue of tax underpayment for social security and health insurance of former ČD employees laid off in a social programme based on a government decision in 2002, it addressed the document on asset management which is in the responsibility of the Department of Asset Management of the General Directorate of ČD and which is used in business by Správa dopravní cesty or other executive entities. The Supervisory Board ordered the Board of Directors to take steps increasing the efficiency of immovable asset management. The Supervisory Board also focused on short-term and mid-term measures to increase the competitiveness of ČD and make a profit in 2006. The Supervisory Board also took interest in human resources and discussed infrastructure rationalisation measures. Furthermore, it addressed the progress of rationalisation and the drawing of investment funds from Státní fond dopravní infrastruktury (State Fund of Transport Infrastructure) for investment activity for rationalisation measures pursuant to the contract between ČD, a.s. and Správa železniční dopravní cesty, s.o.

The Supervisory Board discussed the allocation of passenger transport expenses pursuant to the requirements of the regions in the Czech Republic.

The Supervisory Board also addressed the project to establish the subsidiary Výzkumný Ústav Železniční, a.s., granted the Company's Board of Directors its prior consent to contribution of part of the business of České dráhy, a.s. for the formation of Výzkumný Ústav Železniční, a.s. and approved the draft contract for the contribution of part of business.

The Supervisory Board addressed the issue of financing from EUROFIMA in 2005 and granted the Board of Directors its prior consent to receive a loan of EUR 45 million from EUROFIMA in 2005. Furthermore, it took an interest in the 2006 Business Plan of České dráhy, a.s. and approved it.

In conclusion, the Supervisory Board states that it did not note any breach of legal regulations or the Articles of Association by the Company's top management, the Board of Directors, or authorised managers during the course of its supervisory activities in 2005.

**Vojtěch Kocourek**  
Chairman of the Supervisory Board of České dráhy, a.s.

**Independent Auditor's Report to the Shareholders of České dráhy, a.s.**

Having its registered office at:                   nábřeží L. Svobody 1222, Praha 1, 110 15  
Identification number:                           70994226  
Principal activities:                             Railway transportation and railway route operation

**Financial Statements**

Based upon our audit, we issued the following audit report dated 11 May 2006 on the financial statements which are included in this annual report on pages 97 to 130:

"We have audited the accompanying financial statements of České dráhy, a.s. for the year ended 31 December 2005. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the financial statements, taken as a whole, based on our audit.

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

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of České dráhy, a.s. as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

**Consolidated Financial Statements**

Based upon our audit, we issued the following audit report dated 23 June 2006 on the consolidated financial statements which are included in this annual report on pages 61 to 96:

"We have audited the accompanying consolidated financial statements of České dráhy, a.s. for the year ended 31 December 2005. These consolidated financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity and financial position of the České dráhy, a.s. Group as of 31 December 2005 and of the expenses, income and results of its operations for the year then ended in accordance with accounting regulations applicable in the Czech Republic."



**Related Party Transactions Report**

The annual report does not include a report on the transactions between the controlling and controlled entities and transactions between the controlled entity and other entities controlled by the same controlling entity for the year ended 31 December 2005. The Company's opinion on which the management based this decision is described on page 132 of this annual report.

**Annual Report**

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 21 July 2006



Audit firm:  
**Deloitte s.r.o.**  
Certificate No. 79



Statutory auditor:  
**Michal Petrman**  
Certificate No. 1105



Represented by:  
**Michal Petrman**  
Statutory Executive

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

Name of the Parent Company: České dráhy, a.s.  
Registered Office: nábřeží L. Svobody 1222, Prague 1, 110 15  
Legal Status: Joint Stock Company  
Corporate ID: 70994226


**Components of the Consolidated Financial Statements:**

Consolidated Balance Sheet  
Consolidated Profit and Loss Account  
Consolidated Statement of Changes in Equity  
Consolidated Cash Flow Statement  
Consolidated Notes

The consolidated financial statements were prepared on 14 June 2006.

**Statutory body of the reporting entity**

**Vladimír Filip**  
Member of the Board of Directors and Deputy CEO for Economics



**Jiří Kolář**  
Member of the Board of Directors and Deputy CEO for Passenger Transport

**Consolidated Balance Sheet – full version as of 31 December 2005 (in CZK thousand)**

	31 Dec 2005 Net	31 Dec 2004 Net
<b>TOTAL ASSETS</b>	<b>51,069,261</b>	<b>47,305,248</b>
<b>B. Fixed assets</b>	<b>42,221,574</b>	<b>38,733,006</b>
<b>B.I. Intangible fixed assets</b>	<b>514,127</b>	<b>158,785</b>
B.I.1. Start-up costs	1,093	–
B.I.2. Research and development	–	754
B.I.3. Software	29,909	41,338
B.I.4. Valuable rights	242,898	58
B.I.7. Intangible fixed assets under construction	240,227	116,635
<b>B.II. Tangible fixed assets</b>	<b>41,408,816</b>	<b>37,731,603</b>
B.II.1. Land	7,451,394	8,015,279
B.II.2. Structures	11,449,185	9,408,404
B.II.3. Individual movable assets and sets of movable assets	16,088,051	15,805,413
B.II.6. Other tangible fixed assets	4,140	3,940
B.II.7. Tangible fixed assets under construction	4,712,878	2,058,057
B.II.8. Prepayments for tangible fixed assets	1,694,847	2,440,510
B.II.9. Valuation difference on acquired assets	8,321	–
<b>B.III. Non-current financial assets</b>	<b>353,022</b>	<b>310,752</b>
B.III.1. Equity investments in subsidiaries	51,956	32,353
B.III.2. Equity investments in associates	5,829	3,170
B.III.3. Other securities and investments	275,237	275,229
B.III.6. Acquisition of non-current financial assets	20,000	–
<b>B.IV. Consolidation differences (goodwill)</b>	<b>-54,391</b>	<b>-60,589</b>
B.IV.2. Negative consolidation difference (negative goodwill)	-54,391	-60,589
<b>B.V. Securities and equity interests under equity accounting</b>	<b>–</b>	<b>592,455</b>
<b>C. Current assets</b>	<b>8,731,637</b>	<b>8,552,124</b>
<b>C.I. Inventories</b>	<b>1,936,511</b>	<b>1,776,855</b>
C.I.1. Material	1,891,397	1,661,560
C.I.2. Work in progress and semifinished goods	16,024	14,182
C.I.4. Animals	3	3
C.I.5. Goods	6,549	5,226
C.I.6. Prepayments for inventory	22,538	95,884
<b>C.II. Long-term receivables</b>	<b>52,596</b>	<b>5,317</b>
C.II.1. Trade receivables	27	–
C.II.5. Long-term prepayments made	4,081	3,239
C.II.7. Other receivables	23,702	2,078
C.II.8. Deferred tax asset	24,786	–
<b>C.III. Short-term receivables</b>	<b>4,718,421</b>	<b>4,657,972</b>
C.III.1. Trade receivables	3,143,947	2,877,328
C.III.6. State – tax receivables	26,856	136,960
C.III.7. Short-term prepayments made	245,261	229,850
C.III.8. Estimated receivables	1,263,329	1,363,426
C.III.9. Other receivables	39,028	50,408
<b>C.IV. Current financial assets</b>	<b>2,024,110</b>	<b>2,111,980</b>
C.IV.1. Cash on hand	84,178	65,398
C.IV.2. Cash at bank	1,937,824	2,046,582
C.IV.3. Short-term securities and investments	2,108	–
<b>D. I. Other assets</b>	<b>116,050</b>	<b>20,118</b>
D.I.1. Deferred expenses	113,749	19,903
D.I.2. Complex deferred expenses	62	62
D.I.3. Accrued income	2,239	153

	31 Dec 2005	31 Dec 2004
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>51,069,261</b>	<b>47,305,248</b>
<b>A. Equity</b>	<b>36,542,779</b>	<b>37,580,064</b>
<b>A.I. Share capital</b>	<b>20,000,000</b>	<b>20,000,000</b>
A.I.1. Share capital	20,000,000	20,000,000
<b>A.II. Capital funds</b>	<b>18,418,782</b>	<b>19,055,936</b>
A.II.1. Share premium	19,172,917	19,500,000
A.II.2. Other capital funds	-764,996	-444,064
A.II.3. Gains or losses from the revaluation of assets and liabilities	10,861	-
<b>A.III. Statutory funds</b>	<b>253,196</b>	<b>66,144</b>
A.III.2. Statutory and other funds	253,196	66,144
<b>A.IV. Retained earnings</b>	<b>-1,542,005</b>	<b>-924,037</b>
A.IV.2. Accumulated losses brought forward	-1,542,005	-924,037
<b>A.V. Profit or loss for the current period (+/-)</b>	<b>-587,183</b>	<b>-617,566</b>
A.V.1. Profit or loss for the period	-587,383	-617,968
A.V.2. Share of income from associates	200	402
<b>A.VI. Consolidation reserve fund</b>	<b>-11</b>	<b>-413</b>
<b>B. Liabilities</b>	<b>12,969,180</b>	<b>9,604,072</b>
<b>B.I. Reserves</b>	<b>134,224</b>	<b>183,656</b>
B.I.4. Other reserves	134,224	183,656
<b>B.II. Long-term liabilities</b>	<b>3,269,266</b>	<b>1,872,788</b>
B.II.5. Long-term prepayments received	18,319	611
B.II.9. Other payables	3,250,947	1,872,177
<b>B.III. Short-term liabilities</b>	<b>7,534,625</b>	<b>6,746,271</b>
B.III.1. Trade payables	3,772,797	3,215,136
B.III.5. Payables to employees	1,262,231	1,324,344
B.III.6. Social security and health insurance payables	603,545	643,773
B.III.7. State – tax payables and subsidies	275,053	254,475
B.III.8. Short-term prepayments received	339,167	285,277
B.III.10. Estimated payables	1,164,815	1,022,885
B.III.11. Other payables	117,017	381
<b>B.IV. Bank loans and borrowings</b>	<b>2,031,065</b>	<b>801,357</b>
B.IV.1. Long-term bank loans	1,422,839	721,221
B.IV.2. Short-term bank loans	608,226	80,136
<b>C. I. Other liabilities</b>	<b>341,748</b>	<b>121,112</b>
C.I.1. Accrued expenses	102,275	26,452
C.I.2. Deferred income	239,473	94,660
<b>D.I. Minority equity</b>	<b>1,215,554</b>	<b>-</b>
D.I.1. Minority share capital	1,163,627	-
D.I.2. Minority capital funds	338	-
D.I.3. Minority profit funds incl. retained earnings and accumulated losses	-13,755	-
D.I.4. Minority profit or loss for the period	65,344	-

**Consolidated Profit and Loss Account for the year ended 31 December 2005 (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
I. Sales of goods	162,213	149,252
A. Costs of goods sold	131,196	120,339
<b>+ Gross margin</b>	<b>31,017</b>	<b>28,913</b>
II. Production	35,805,864	36,722,447
II.1. Sales of own products and services	35,458,747	36,550,121
II.2. Change in internally produced inventory	-815	-7,126
II.3. Own work capitalised	347,932	179,452
B. Purchased consumables and services	19,879,993	20,187,778
B.1. Consumed material and energy	7,076,300	7,077,155
B.2. Services	12,803,693	13,110,623
<b>+ Added value</b>	<b>15,956,888</b>	<b>16,563,582</b>
C. Staff costs	22,776,569	23,369,010
C.1. Payroll costs	16,635,533	17,012,909
C.2. Remuneration to members of statutory bodies	4,077	3,466
C.3. Social security and health insurance costs	5,490,302	5,732,189
C.4. Social costs	646,657	620,446
D. Taxes and charges	96,944	33,195
E. Depreciation of intangible and tangible fixed assets	2,587,191	2,491,847
KR. Amortisation of negative goodwill on consolidation	3,120	3,304
III. Sales of fixed assets and material	1,011,182	430,023
III.1. Sales of fixed assets	766,747	134,046
III.2. Sales of material	244,435	295,977
F. Net book value of fixed assets and material sold	592,186	267,695
F.1. Net book value of sold fixed assets	390,494	14,337
F.2. Book value of sold material	201,692	253,358
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	-317,912	-752,849
IV. Other operating income	8,575,060	8,196,667
H. Other operating expenses	525,668	435,011
<b>* Operating profit or loss</b>	<b>-714,397</b>	<b>-650,333</b>
VI. Proceeds from the sale of securities and investments	35,914	-
J. Cost of securities and investments sold	6,240	-
VII. Income from non-current financial assets	3,955	2,593
VII.3. Income from other non-current financial assets	3,955	2,593
X. Interest income	10,956	30,816
N. Interest expenses	27,020	1,386
XI. Other financial income	473,945	297,461
O. Other financial expenses	284,962	389,513
<b>* Financial profit or loss</b>	<b>206,548</b>	<b>-60,029</b>
Q. Income tax on ordinary activities	14,495	-
Q 1. – due	10,862	-
Q 2. – deferred	3,633	-
<b>** Profit or loss from ordinary activities</b>	<b>-522,344</b>	<b>-710,362</b>
XIII. Extraordinary income	1,237	152,461
R. Extraordinary expenses	1,228	60,067
S. Income tax on extraordinary activities	4	-
S.1. – due	4	-
<b>* Extraordinary profit or loss</b>	<b>5</b>	<b>92,394</b>
<b>** Consolidated profit or loss net of share of income of associates</b>	<b>-522,339</b>	<b>-617,968</b>
Consolidated profit or loss net of minority interests	-587,383	-617,968
Minority profit or loss	65,044	-
<b>** Share of income of associates</b>	<b>501</b>	<b>402</b>
Share of income of associates net of minority interest	200	402
Minority share of income of associates	301	-
Profit or loss for the current period (+/-)	-521,838	-617,566
<b>*** Profit or loss for the current period net of minority interests (+/-)</b>	<b>-587,183</b>	<b>-617,566</b>



**Consolidated Statement of Changes in Equity for the year ended 31 December 2005 (in CZK thousand)**

	Share capital	Share premium	Other capital funds	Revaluation gains or losses on assets and liabilities	Statutory and other funds from profit	Consolidation reserve fund	Accumulated losses brought forward	Profit or loss for the current period	Share of income from associates	Total equity
<b>Balance at 31 Dec 2003</b>	20,000,000	19,500,000	-452,672	-	193,225	-	-	-924,037	-413	38,316,103
Distribution of profit or loss	-	-	-	-	-	-413	-924,037	924,037	413	-
Creation of the social fund – other	-	-	-	-	19,180	-	-	-	-	19,180
Use of the social fund	-	-	-	-	-146,261	-	-	-	-	-146,261
Profit or loss for the current period	-	-	-	-	-	-	-	-617,968	402	-617,566
Other	-	-	8,608	-	-	-	-	-	-	8,608
<b>Balance at 31 Dec 2004</b>	20,000,000	19,500,000	-444,064	-	66,144	-413	-924,037	-617,968	402	37,580,064
Distribution of profit or loss	-	-	-	-	-	402	-617,968	617,968	-402	-
Creation of the social fund with a charge against share premium	-	-327,083	-	-	327,083	-	-	-	-	-
Creation of the social fund – other	-	-	-	-	10,858	-	-	-	-	10,858
Use of the social fund	-	-	-	-	-150,930	-	-	-	-	-150,930
Revaluation of non-current financial assets	-	-	-	10,861	-	-	-	-	-	10,861
Profit or loss for the current period	-	-	-	-	-	-	-	-587,383	200	-587,183
Other	-	-	-320,932	-	41	-	-	-	-	-320,891
Impact of full consolidation of ČD - Telematika a.s.	-	-	-	-	-	-	-	-	-	-
Minority profit or loss for the period	-	-	-	-	-	-	-	-	-	-
<b>Balance at 31 Dec 2005</b>	20,000,000	19,172,917	-764,996	10,861	253,196	-11	-1,542,005	-587,383	200	36,542,779

	Minority share capital	Minority capital funds	Minority funds from profit incl. retained earnings and accumulated losses	Minority profit or loss for the period	Total minority equity
<b>Balance at 31 Dec 2003</b>	-	-	-	-	-
Distribution of profit or loss	-	-	-	-	-
Creation of the social fund – other	-	-	-	-	-
Use of the social fund	-	-	-	-	-
Profit or loss for the current period	-	-	-	-	-
Other	-	-	-	-	-
<b>Balance at 31 Dec 2004</b>	-	-	-	-	-
Distribution of profit or loss	-	-	-	-	-
Creation of the social fund with a charge against share premium	-	-	-	-	-
Creation of the social fund – other	-	-	-	-	-
Use of the social fund	-	-	-	-	-
Revaluation of non-current financial assets	-	-	-	-	-
Profit or loss for the current period	-	-	-	-	-
Other	-	-	-	-	-
Impact of full consolidation of ČD - Telematika a.s.	1,163,627	338	-13,755	-	1,150,210
Minority profit or loss for the period	-	-	-	65,344	65,344
<b>Balance at 31 Dec 2005</b>	1,163,627	338	-13,755	65,344	1,215,554

**Consolidated Cash Flow Statement for the year ended 31 December 2005 (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
<b>P.</b>		
Opening balance of cash and cash equivalents	2,111,980	2,421,310
<b>Cash flows from ordinary activities</b>		
Z.		
Profit or loss from ordinary activities before tax	-507,348	-713,666
A.1.		
Adjustments for non-cash transactions	1,914,059	1,604,901
A.1.1.		
Depreciation of fixed assets	2,586,088	2,498,673
A.1.2.		
Change in provisions and reserves	-308,136	-752,849
A.1.3.		
Profit/(loss) on the sale of fixed assets	-405,927	-119,709
A.1.5.		
Interest expense and interest income	16,064	-29,430
A.1.6.		
Adjustments for other non-cash transactions	25,970	8,216
<b>A.*</b>	<b>1,406,711</b>	<b>891,235</b>
<b>Net operating cash flow before changes in working capital</b>		
A.2.		
Change in working capital	171,846	524,889
A.2.1.		
Change in operating receivables and other assets	46,571	147,212
A.2.2.		
Change in operating payables and other liabilities	228,584	150,614
A.2.3.		
Change in inventories	-103,310	227,063
<b>A.**</b>	<b>1,578,556</b>	<b>1,416,124</b>
<b>Net cash flow from operations before tax and extraordinary items</b>		
A.3.		
Interest paid	-27,020	-1,386
A.4.		
Interest received	10,956	30,816
A.5.		
Income tax paid from ordinary operations	-	316
A.6.		
Receipts and expenditures relating to extraordinary activities	5	92,394
<b>A.***</b>	<b>1,562,497</b>	<b>1,538,264</b>
<b>Net operating cash flows</b>		
<b>Cash flows from investing activities</b>		
B.1.		
Fixed assets expenditures	-4,959,181	-4,160,044
B.2.		
Proceeds from fixed assets sold	802,661	134,008
B.4.		
Cash flows from the purchase of business or its part	19,408	-
<b>B.***</b>	<b>-4,137,112</b>	<b>-4,026,036</b>
<b>Net investment cash flows</b>		
<b>Cash flow from financial activities</b>		
C.1.		
Change in payables from financing	2,626,187	2,304,150
C.2.		
Impact of changes in equity	-139,442	-125,708
C.2.3.		
Other cash contributions made by partners	11,488	20,553
C.2.5.		
Payments from capital funds	-150,930	-146,261
<b>C.***</b>	<b>2,486,745</b>	<b>2,178,442</b>
<b>Net financial cash flows</b>		
<b>F.</b>	<b>-87,870</b>	<b>-309,330</b>
<b>Net increase or decrease in cash and cash equivalents</b>		
<b>R.</b>	<b>2,024,110</b>	<b>2,111,980</b>
<b>Closing balance of cash and cash equivalents</b>		

**Notes to the Consolidated Financial Statements for the year ended 31 December 2005****1. GENERAL INFORMATION****1.1. Background Information**

České dráhy, a.s. (hereinafter the "Parent Company" or the "Company") was incorporated following its registration in the Register of Companies on 1 January 2003 as one of the legal successors of the former state organisation České dráhy. Additional details are presented in Note 1.5.

The Company's registered office is located at nábr. L. Svobody 1222/12, Prague 1.

The Company's share capital is CZK 20,000,000,000.

The consolidated financial statements have been prepared as of and for the year ended 31 December 2005.

The sole shareholder of the Parent Company is the Czech Republic.

**1.2. Principal Operations**

The Parent Company is principally engaged in operating railway freight and passenger transportation.

Pursuant to applicable legislation, the Parent Company also operates railway routes. The assets comprising the railway routes are in the ownership of the State, not the Company. The right of management of these assets rests with the state organisation Railway Route Administration (Správa železniční dopravní cesty, státní organizace – "SŽDC").

In addition, the Parent Company performs other activities related to the operation of transportation and transportation routes.

**1.3. Organisational Structure of the Parent Company**

The Company is organised into sections overseen directly by the Parent Company's Chief Executive Officer (CEO) or Deputy CEOs, being:

- The section of the Company's CEO;
- The section of the Company's Deputy CEO for Finance;
- The section of the Company's Deputy CEO for Freight Transportation;
- The section of the Company's Deputy CEO for Passenger Transportation; and
- The section of the Company's Deputy CEO for Transportation Routes.

**1.4. The Company's Bodies**

The Parent Company's bodies include the General Meeting, Board of Directors and Supervisory Board.

The General Meeting is the supreme body of the Company. The sole shareholder of the Parent Company is the State which exercises the rights of the General Meeting through the Steering Committee.



## The Parent Company's Bodies as of 31 December 2005

	Position	Name
Steering Committee	Chairman	Antonín Tesařík
	Member	Vojtěch Kocourek
	Member	Pavel Štalmach
	Member	Jiří Volf
	Member	Jaroslav Král
	Member	Jaroslav Soušek
	Member	Jiří Havlíček

	Position	Name
Board of Directors	Chairman	Josef Bazala
	Member	Petr David
	Member	Ivan Foltýn
	Member	Jiří Kolář
	Member	Rodan Šenekl

Mr. Ivan Foltýn was a member of the Board of Directors until 15 February 2006. A new member of the Board of Directors, Mr. Vladimír Filip, was elected by the Supervisory Board on 7 March 2006.

	Position	Name
Supervisory Board	Chairman	Vojtěch Kocourek
	Member	Jaromír Dušek
	Member	František Formánek
	Member	Tomáš Chalánek
	Member	Miroslav Kapoun
	Member	Jiří Kratochvíl
	Member	Karel Korytář
	Member	Kurt Mužík
	Member	František Vašítek

During the year ended 31 December 2005, the changes in the Steering Committee, Board of Directors and the Supervisory Board were as follows:

## Steering Committee:

Position	Original Member	New Member	Date of the Change
Member	Martin Pecina		16 November 2005
Member		Jiří Havlíček	17 November 2005

**Board of Directors:**

Position	Original Member	New Member	Date of the Change
Member		Petr David	1 March 2005
Member	Jiří Kloutvor		6 May 2005
Chairman, Member	Petr Kousal		3 June 2005
Member		Jiří Kolář	7 June 2005
		Rodan Šenekl	7 June 2005

On 9 May 2005, Mr. Petr Kousal resigned from his position as Chairman of the Board of Directors and Mr. Josef Bazala, who had been a member of the Board of Directors, took this position.

**Supervisory Board:**

Position	Original Member	New Member	Date of the Change
Member		Miroslav Kapoun	1 January 2005

**1.5. Formation and Incorporation of the Parent Company**

On 1 March 2002, Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended (the "Transformation Act") took effect. On the basis of the Transformation Act the Company was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Company and the state organisation Railway Route Administration ("SŽDC") were formed as its legal successors.

SŽDC largely assumed the assets comprising railway routes while the Company largely assumed assets used to operate railway transportation and railway routes. In addition, SŽDC took over the bulk of receivables, payables and loans, while the Company assumed only trade receivables and payables before their due dates and receivables and payables arising from employment arrangements with its employees. Both entities assumed the assets and liabilities at their book values.

In respect of the components of the tangible fixed assets contained in the Establishment Deed where uncertainties or alternative legal opinions on their apportionment between the Company and SŽDC may exist as discussed in the previous paragraph, the Company's Establishment Deed was respected. The assets contained in the Establishment Deed were presented in the opening balance sheet as of 1 January 2003. Management of the Parent Company believes that the above uncertainties or risks of the potential application of alternative legal opinions have been decreasing over time since the incorporation of the Company.

**2. DEFINITION OF THE CONSOLIDATION GROUP (HEREINAFTER ALSO THE "GROUP")**

The consolidation group of České dráhy for the year ended 31 December 2005 consists of the following entities:

Name	Registered office	Corporate ID	Ownership percentage	Degree of influence	Consolidation method
České dráhy, a.s.	Prague 1, nábr. L. Svobody 12/1222	70994226	–	–	–
Traťová strojní společnost, a.s.	Pardubice, Hlaváčova 206	27467295	100%	Control	Full
ČD - Telematika a.s.	Prague 10, Žirovnická 2/3146	61459445	51% *)	Control	Full *)
Výzkumný Ústav Železniční, a.s.	Prague 4, Novodvorská 1698	27257258	100%	Control	Full

\*) As disclosed in Note 2.1. and the below disclosure, the Parent Company had exercised significant influence over ČD - Telematika a.s. until 31 March 2005, therefore this subsidiary was included in consolidation using the equity method of accounting until that date.



**Companies Excluded from the Consolidation**

The Parent Company decided to exclude the entities whose share in the consolidation group is immaterial in terms of aggregate assets, net turnover and equity even though the Parent Company exercises controlling influence over these entities.

Name	Registered office	Ownership percentage
ČD Generalvertretung GmbH	Kaiserstrasse 60, 603 29 Frankfurt am Main	100%
RAILREKLAM, s.r.o.	Klimentská 36, 110 00 Prague 1	100%
RailReal, a.s.	Olšanská 1a, 130 00 Prague 3	66%
ČD Reality, a.s.	Prvního pluku 2a/81, 130 00 Prague 3	51%
CD Travel, s.r.o.	Hybernská 1034, 110 00 Prague 1	100%
DVI, a.s.	Hybernská 1034, 110 00 Prague 1	100%
Smíchov Station Development, a.s.	Revoluční 655/1, 110 00 Prague 1	51%
Trade CDT s.r.o.	Pernerova 2819/2a, 130 00 Prague 3	51% *)

\*) České dráhy, a.s. exercises indirect influence over Trade CDT s.r.o., as this company is wholly owned by ČD - Telematika a.s.

The financial statements of all the companies both included and excluded from the consolidation process are available for examination at the premises of the parent company located at nábreží L. Svobody 1222, Prague 1.

**Changes in the Composition of the Group**

The consolidated financial statements of the Parent Company for the year ended 31 December 2005 have been the first set of consolidated financial statements of the České dráhy Group since the incorporation of the Parent Company. Due to the formation of the subsidiaries Traťová strojní společnost, a.s. and Výzkumný Ústav Železniční, a.s. in 2005, as disclosed in Note 2.1., the consolidation group included only one subsidiary – ČD - Telematika a.s. as of 31 December 2003 and 31 December 2004. The equity investment in this subsidiary was 30 percent and 40 percent as of the dates referred to above. The comparative information in the financial statements for the year ended 31 December 2005 (i.e. information for the year ended 31 December 2004) therefore includes the figures of the subsidiary ČD - Telematika a.s. that were accounted for using the equity method of accounting until 31 March 2005 and using the full consolidation method since 1 April 2005.

The balance sheet date of the companies included in the Group is 31 December 2005.

**2.1. Subsidiaries**

The following table shows information about the companies in the Group as of 31 December 2005:

Name	Place of incorporation (or registration) and operation	Ownership interest in %	Voting power in %	Principal activity
Traťová strojní společnost, a.s.	Pardubice	100%	100%	Construction, alterations and demolition of buildings
Výzkumný Ústav Železniční, a.s.	Prague	100%	100%	Research and development of rail vehicles and infrastructure facilities
ČD - Telematika a.s.	Prague	51% *)	51% *)	Provision of telecommunication services, software and advisory services

\*) As stated below, the Parent Company had exercised significant influence over ČD - Telematika a.s. until 31 March 2005, therefore this subsidiary was included in consolidation using the equity method of accounting until that date.

Traťová strojní společnost, a.s., recorded in the Register of Companies on 1 January 2005. The entity was formed through the investment of part of the Parent Company's business. As disclosed in Note 8.3., the influence of ČD, a.s. on the entity decreased following the entrance of a strategic investor.

Výzkumný Ústav Železniční, a.s., recorded in the Register of Companies on 1 July 2005. The entity was formed through the investment of the Parent Company.

In addition to the two newly formed companies, the Parent Company increased its investment in ČD - Telematika a.s. from 40 percent to 51 percent by making an investment of part of its business which was registered in the Register of Companies on 4 May 2005. In 2004, the Parent Company increased its investment in the entity from 34 percent to 40 percent by converting a receivable of CZK 297,000 thousand into equity. In 2003, the Parent Company obtained a 34 percent shareholding on the basis of the Contract for the Transfer of the Receivable entered into with MORÁVKA CENTRUM, a.s. for an acquisition cost of CZK 230,744 thousand.

### 3. ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

The consolidated financial statements are prepared and presented in accordance with the Accounting Act 563/1991 Coll., as amended and modified by Acts 117/1994 Coll., 227/1997 Coll., 492/2000 Coll. and 353/2001 Coll., 575/2002 Coll., 437/2003 Coll., 257/2004 Coll., 669/2004 Coll., 179/2005 Coll., 495/2005 Coll. and Regulation 500/2002 Coll., which provides implementation guidance on certain provisions of Act 563/1991, as amended, for reporting entities that are businesses maintaining double-entry accounting records, as amended by Regulations 472/2003 Coll. and 397/2005 Coll.; and Czech Accounting Standards for Businesses.

The accounting books and records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis with certain exceptions as described in Note 4.2., the accruals principle, the prudence concept and the going concern assumption. The assets and liabilities assumed by the Company as of 1 January 2003 under Act 77/2002 Coll., as amended (the "Transformation Act") were entered into the Company's books and records at their book values.

These consolidated financial statements are presented in thousands of Czech crowns, unless stated otherwise.

#### 3.1. Scope of Consolidation and the Consolidation Method

Consolidation is performed using the direct consolidation method. Direct consolidation involves consolidation of all accounting entities of the Group at once without using the any consolidated financial statements presented for consolidation sub-groups.

The Group of companies consists of the Parent Company, České dráhy, a.s., and its subsidiaries. The definition of subsidiaries is as follows:

##### Subsidiaries

- Investments in enterprises in which the Parent Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as "Equity investments in subsidiaries".
- For consolidation purposes, a subsidiary is a company where the Parent Company has a controlling influence through the ownership of more than 50 percent of shares/capital interests.

These companies are consolidated using the full consolidation method.

##### Associates

- Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as "Equity investments in associates".

For consolidation purposes, an associate is a company where the Parent Company has a significant influence, i.e.:

- It holds more than 20 percent of shares/capital interests and does not exercise controlling influence.

These companies are consolidated using the equity method of accounting.



### 3.2. Full Consolidation Method

#### 3.2.1. Description of Full Consolidation Method

The full consolidation method involves:

- a) Inclusion, after possible reclassifications and adjustments, of each item of the balance sheet and profit and loss account of subsidiaries in the balance sheet and profit and loss account of the Parent Company;
- b) Elimination of accounting transactions between accounting entities of the Group which express mutual relations;
- c) Presentation of goodwill arising on consolidation, if any, and its amortisation;
- d) Allocation of equity of subsidiaries and their profit or loss among the equity interest attributable to the Parent Company and the equity interest attributable to minority holders of equity securities and equity interests issued by consolidated entities; and
- e) Elimination of equity securities and equity interests issued by the subsidiary and the controlling entity and the equity of the controlling equity which relates to the eliminated equity securities and interests.

#### 3.2.2. Stages of the Full Consolidation Method

##### Reclassification of and adjustments to items of financial statements of the Parent Company and subsidiaries

The reclassification of the Parent Company's and subsidiaries' information is made taking into account items added to the consolidated balance sheet and the consolidated profit and loss account and their economic substance.

The adjustments are made following the valuation principles stated in the consolidation rules. These adjustments are only made in subsidiaries whose valuation principles differ from the valuation principles set out in the consolidation rules and would have a material impact on the valuation of the assets in the consolidated financial statements and the reported profit or loss.

##### Adding the financial statements data of the Parent Company and subsidiaries

The Parent Company adds reclassified and adjusted information from its financial statements to the reclassified and adjusted information from the financial statements of its subsidiaries.

Elimination of mutual transactions between the Parent Company and its subsidiaries.

Elimination of transactions which do not influence profit or loss.

Mutual intercompany receivables and payables and expenses and income which have a material impact on assets, liabilities and profit or loss items in the consolidated financial statements are fully eliminated.

##### Elimination of transactions which influence profit or loss

Upon the preparation of the consolidated balance sheet and the consolidated profit and loss account, mutual transactions between the Parent Company and subsidiaries or between subsidiaries which have a material impact on the profit or loss of the Group are eliminated, among others, in the following cases:

- a) Intercompany sale and purchase of inventory; and
- b) Intercompany sale and purchase of fixed assets.

When the full consolidation method is used, mutual transactions between the Parent Company and subsidiaries and between subsidiaries are eliminated.

The elimination of mutual transactions which influence the profit or loss is carried out in accordance with the stated consolidation rules.

When the profit or loss arising from intercompany purchases and sales of inventory is eliminated, the valuation of inventory and revenue arising from the sale of inventory is adjusted in the consolidated balance sheet and the consolidated profit and loss account. For the purposes of adjusting these consolidated financial statements items, in adjusting income and the change in valuation of inventory, the average supplier return on sales from the total profit or loss or operating profit or loss can be used or industry or product yield return of the supplier or an alternative, more accurate, procedure can be used.

When the profit or loss arising from the purchase and sale of fixed assets is eliminated, the revenues from the sale of fixed assets are adjusted to reflect the difference between the sales price and the supplier's carrying value. Accumulated depreciation of fixed assets in the consolidated financial statements is also adjusted.

**Goodwill arising on consolidation**

Goodwill arising on consolidation represents the difference between the cost of an investment in a subsidiary and its value determined on the basis of the Parent Company's interest in the fair value of equity which arises as a difference of fair values of assets and fair values of liabilities as of the date of acquisition or as of the date of a further capital increase (a further increase of securities or investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated company.

Goodwill arising on consolidation is amortised on a straight line basis over 20 years if there are no reasons for a shorter amortisation period. The selected amortisation period must be clearly provable and must not breach the principle of the true and fair presentation of the subject-matter of accounting and the financial position of the company. Goodwill arising on consolidation is debited to the positive consolidation goodwill in expenses on ordinary activities or credited to negative consolidation goodwill in income on ordinary activities as appropriate.

Amortisation charges of goodwill arising on consolidation are recognised in a special consolidated profit and loss account line item.

**Division of consolidated equity and elimination of equity securities and equity interests**

The division of equity in the consolidated balance sheet involves the separation of majority equity interest consisting of the sum of the Parent Company's equity and its interest in the equity of subsidiaries from minority interests, i.e. the remaining equity interests of other shareholders and owners of these consolidated entities.

Equity interests issued by a subsidiary and the equity of a subsidiary related to the equity interests held by the Parent Company are eliminated from the consolidated balance sheet.

**Minority equity**

These are liability balance sheet items where minority equity interests in subsidiaries are presented and classified into interest in share capital, capital funds, funds from profit, retained earnings/accumulated losses and profit or loss for the current period.

**Distribution of consolidated profit or loss for the current period**

The Group's profit or loss for the current period is distributed in the consolidated profit and loss account between the consolidated profit or loss for the current period attributable to the Parent Company and the minority share in profit or loss attributable to other subsidiary shareholders and owners as appropriate.



### 3.3. Consolidation using the Equity Method of Accounting

#### 3.3.1. Description of Consolidation using Equity Accounting

The equity method of accounting represents the following adjustments to the financial statements information of the entity with significant influence:

- a) Eliminating equity interests issued by an associate from the balance sheet of the entity exercising significant influence and replacing them by a stand-alone balance sheet item of interests valued using equity accounting in the amount of equity interests in the associate;
- b) Settlement of the difference between the valuation of interests and the consolidation balance sheet item of the equity-accounted interest through the recognition of:
  - ba) The consolidation reserve fund which represents accumulated shares in the profit or loss under equity accounting for the prior periods of associates from the date of their acquisition. The consolidation reserve fund also includes subsidiary interests in total changes in other equity (i.e. net of profit or loss) for the relevant period.
  - bb) If consolidation is carried out proportionally (via sub-groups), the portion of share in profit or loss of the associate recognised in the consolidated profit and loss account of the sub-group is fully recognised in the "Share of profit or loss under equity accounting" in the consolidated profit and loss account for the "higher-level" consolidation group.

#### Share in profit or loss under equity accounting

Share in profit or loss under equity accounting relates to the profit or loss of the associate for the current period and its amount is arrived at based on the investment of the entity exercising significant influence over the associate and based on the actual profit or loss of the associate for the period from the acquisition date to the end of the reporting period when the associate was acquired. In the following years, consolidated profit or loss under equity accounting is calculated as the product of the equity investment and the profit or loss of the associate for the period.

If consolidation is carried out using the direct method, the proportionate part of the profit or loss of the associate attributable to the investment of the entity exercising significant influence over the associate is taken over based on direct and indirect investments.

If the method of equity accounting is used, clearly determinable mutual relations which have a significant impact on the value of equity and profit or loss of the associate for the current period are eliminated.

Goodwill arising on consolidation is treated on the same basis as under the full consolidation method.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1. Tangible and Intangible Fixed Assets

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40,000 (tangible assets except for land and buildings) and CZK 60,000 (intangible assets) on an individual basis. Land and buildings are treated as fixed assets irrespective of their cost valuation.

Intangible fixed assets are valued at acquisition cost. The Parent Company's logo is valued at the price determined by an independent appraiser.

Land acquired prior to 1992 is stated at a value prescribed by the regulation issued by the Finance Ministry ruling at the date of acquisition of assets. Land acquired after 1992 is valued at acquisition cost.

Other tangible fixed assets are stated at acquisition cost. The acquisition cost includes interest on loans provided to fund the acquisition of assets before commencement of their use and other costs attributable to their acquisition.



Tangible and intangible assets produced and generated internally by the Company are stated at the cost of production comprising direct costs and an element of production and/or administrative overheads.

Tangible assets with an acquisition cost greater than CZK 500 but less than CZK 40,000 and intangible assets with an acquisition cost of less than CZK 60,000 are expensed in the period of acquisition and are maintained only in the underlying operational records.

The cost of fixed asset improvements exceeding CZK 40,000 for the period increases the acquisition cost of the related fixed asset.

Replacement costs are used in valuing gifts and assets identified based on physical inventory which were previously not recorded in the accounting books and records.

The acquisition cost of assets acquired subsequent to 1 January 2003 is reduced to reflect the amount of the grant received to finance the acquisition of the asset.

The assets acquired under finance or operating lease agreements (and related liabilities) are not recorded on the balance sheet according to the applicable accounting regulations. Costs incurred in respect of finance and operating leases are charged to the profit and loss account in the period to which they relate on an accruals basis.

Depreciation and amortisation is calculated on a straight line basis over the estimated useful economic lives of the fixed assets. The estimated useful economic lives for the major categories of assets are as follows:

	Number of years
Buildings	30 – 50
Constructions	20 – 50
Locomotives	20 – 25
Passenger coaches	20
Wagons	25 – 33
Optical fibres	35
Machinery and equipment	8 – 20
Intangible assets	3 – 6

At the consolidated balance sheet date, the Parent Company recognises provisions against fixed assets on the basis of an assessment of fair values of individual components or groups of assets.

#### 4.2. Non-Current Financial Assets

Non-current financial assets principally consist of loans with maturity exceeding one year, equity investments, securities and equity investments available for sale and debt securities with maturity over one year held to maturity.

Upon acquisition, securities and equity investments are carried at cost. Equity investments that were acquired in exchange for the non-cash contribution invested in the company are valued at the carrying value of the non-cash investment.

At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as "Equity investment in subsidiaries".



Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as "Equity investments in associates".

In the current reporting period, the Company revised the valuation policy applied to non-current financial assets at the balance sheet when compared to the previous reporting period, as described in Note 4.19.

Since 1 January 2005:

- Equity investments in subsidiaries and associates have been recorded at the value established using the equity method of accounting. The equity investment is recognised at cost upon acquisition and subsequently revalued at the balance sheet date to reflect the value equivalent to the Parent Company's proportion of a subsidiary/associate's equity; and
- Other non-current financial assets have been valued at cost reduced by provisions, if any. Provisions are recognised against non-current financial assets, the valuation of which temporarily does not correspond to the actual state of affairs.

#### 4.3. Inventory

Purchased inventory is valued at acquisition cost which also includes costs attributable to the acquisition, such as transportation costs, customs duties and other related indirect costs.

Inventory produced internally is valued at the internal costs of production including direct costs and an element of production overheads.

Inventory is issued out of stock at costs determined using the weighted arithmetic average method.

Inventory identified during the stock count and previously unrecorded in the accounting records, inventory originating from excess material from the disposal or repairs of fixed assets or any possible donations are stated at replacement cost.

At the consolidated balance sheet date, provisions are made against inventory on the basis of stock taking results and as a percentage of the relevant types of inventory which are potentially unusable for the Company's purposes or which may be disposed of at a price lower than cost.

#### 4.4. Receivables

Upon origination, receivables are stated at their nominal value. Receivables acquired through assignment are carried at cost.

Receivables due within one year from the balance sheet date are reported as short-term balances. Other receivables are recorded as long-term.

At the balance sheet date, the Company records full provisions against receivables that are past due by greater than six months, receivables registered for recovery under bankruptcy and settlement proceedings and receivables where court proceedings against the relevant debtor have been initiated. Different provisioning levels can be recognised taking into account an individual assessment of receivable balances.

**4.5. Payables**

Upon origination, payables are stated at their nominal value. Payables acquired through assignment are carried at cost.

Payables due within one year from the balance sheet date are reported as short-term balances. Other payables are recorded as long-term.

**4.6. Loans**

Loans are stated at their nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans.

Borrowing costs arising from loans attributable to the acquisition, construction or production of fixed assets incurred until the assets are brought into use are added to the cost of those assets. All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

**4.7. Equity**

On 31 March 2002, the date of the Parent Company's formation, the contribution to the Parent Company involved assets specified in the Establishment Deed, predominantly composed of tangible fixed assets at their original book values. The value of these assets stated in the Establishment Deed as of the Parent Company's formation date is reported as the Company's share capital and share premium.

The change in the value of the assets comprising the contribution between the formation date of the Company and its incorporation date as of 1 January 2003 was reported as a component of other capital funds. As of the incorporation date, pursuant to the Transformation Act, the Company assumed not only the assets that comprised the contribution but also other assets and liabilities. The aggregate net value of these other assets and liabilities was also reported as a component of other capital funds. Given that the aggregate net value of assets and liabilities assumed as of 1 January 2003 was lower than the value of the contribution as of 31 March 2002, the reported balance of other capital funds as of 1 January 2003 and subsequently also as of 31 December 2004 and 31 December 2005 is negative.

Valuation gains and losses from the revaluation of assets and liabilities include the value of revaluation of the non-current financial assets using the equity method of accounting.

The statutory and other funds include the balance of the cultural and social needs fund assumed from the former state organisation Czech Railways reduced to reflect drawings made from 2003 to 2005. In 2005, the Company made drawings from the fund and also increased its balance.

**4.8. Reserves**

Reserves are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred or certain to be incurred, but which are uncertain as to the amount or the date on which they will arise.

Reserves for claims is determined using a reasonable estimate and claims to be provided to customers subsequent to the balance sheet date in respect of transportation services provided prior to the consolidated balance sheet date.

In addition, a reserve for a potential impact of legal disputes is maintained.

The reserve for payments made as compensation for job-related accidents and diseases and bonuses to pensions of certain former employees are established pursuant to a statistical analysis of available historical information as equal to the present value of estimated future payments arising from claims that originate before the balance sheet date.



The Parent Company created a reserve for liabilities arising from the Complementary Social Programme, that were not transferred to SŽDC as of the formation date of the Company, up to the level to which these liabilities that arose and were unpaid by 31 December 2003 are not covered by the state subsidy.

The reserve for outstanding vacation days is established on the basis of a reasonable estimate as equal to the estimated future cash outflows (additional wage costs for overtime work) triggered by the use of vacation days that remained outstanding at the year-end.

#### 4.9. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the fixed exchange rate announced by the Czech National Bank on the first day of each month. Payments are recorded at the rate prevailing on the payment date.

At the consolidated balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date.

Any resulting foreign exchange rate gains and losses are recorded through the current year's financial expenses or revenues as appropriate.

#### 4.10. Finance Leases

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

Advances made for future lease instalments are recorded as "Operating prepayments made".

#### 4.11. Income Taxes

##### 4.11.1. Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the tax rate that has been enacted by the balance sheet date.

##### 4.11.2. Deferred Taxation

Deferred tax is accounted for using the balance sheet liability method. Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply in the period when the tax liability is settled or the asset realised. The balance sheet liability method focuses on temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

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

#### 4.12. Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Parent Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

#### **4.13. Contractual Fines and Default Interest**

In accordance with Czech legislation ruling at the balance sheet date, contractual fines and interest on late payments of receivables and payables are recorded when the receivable originates or the payable is incurred.

#### **4.14. Financial Derivatives**

At the balance sheet date, the Group did not enter into any financial derivative.

#### **4.15. State Grants and Settlement of Public Service Commitments from the State Budget and Regional Budgets**

Grants received from public budgets and other sources of funding to finance the acquisition and modernisation of fixed assets are treated as a reduction of the cost of the related assets.

Grants to settle public service commitments cover losses received from the budget of the State and regions, the Complementary Social Programme grant, and the grant in respect of a discounted fare are included in other operating income.

#### **4.16. Revenue Recognition**

Revenues related to transportation services are recognised in the period in which the services are provided.

The Parent Company operates railway routes comprising assets owned by the State. Expenses and income associated with these activities are recognised in the profit and loss account on an accruals basis.

Other revenues are recognised on an accruals basis, except where accruals cannot be estimated with a reasonable degree of certainty or where accrual accounting for revenues is not required by Czech accounting regulations.

#### **4.17. Use of Estimates**

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Parent Company believes that the estimates and assumptions used will not significantly differ from the actual results and outcomes in the following reporting periods.

#### **4.18. Extraordinary Expenses and Income**

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly.



**4.19. Changes in Accounting Policies**

In 2005, the Group revised the basis of valuation of investments in subsidiaries and associates to adopt the equity method of accounting under Czech Accounting Standard No. 008. In the previous reporting period, these investments were recognised at acquisition cost reduced by provisions, if any. The tables in Notes 5.3.1. and 5.3.2. present the comparative information relating to the reported data of these investments as of 31 December 2004 using the method adopted in 2004 and the equity method of accounting applied in 2005.

In addition to the change in the reporting of non-current financial assets referred to above, the Group did not use any accounting methods different from those adopted in the previous reporting period.

**4.20. Cash Flow Statement**

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows (in CZK thousand):

	31 Dec 2005	31 Dec 2004
Cash on hand and cash in transit	84,178	65,398
Cash at bank	1,937,824	2,046,582
Short-term securities and investments	2,108	–
<b>Total cash and cash equivalents</b>	<b>2,024,110</b>	<b>2,111,980</b>

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

**5. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT****5.1. Intangible Fixed Assets (in CZK thousand)**

Acquisition cost	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Impact of the consolidation method	Additions	Disposals	Balance at 31 Dec 2005
Start-up costs	0	0	0	0	0	1,192	0	1,192
Research and development	110,629	597	7,927	103,299	0	0	702	102,597
Software	747,914	27,468	8,075	767,307	13,560	90,099	19,123	851,842
Valuable rights	1,730,303	0	1	1,730,302	255,242	0	0	1,985,544
Other assets	942	0	0	942	0	0	0	942
Intangible assets under construction	52,705	173,411	109,481	116,635	0	130,436	6,844	240,227
Prepayments for intangible fixed assets	0	0	0	0	0	114	114	0
<b>Total</b>	<b>2,642,493</b>	<b>201,476</b>	<b>125,484</b>	<b>2,718,485</b>	<b>268,802</b>	<b>221,841</b>	<b>26,783</b>	<b>3,182,344</b>

Cumulated amortisation	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Impact of the consolidation method	Additions	Disposals	Balance at 31 Dec 2005
Start-up costs	0	0	0	0	0	99	0	99
Research and development	110,191	281	7,927	102,545	0	52	0	102,597
Software	695,082	38,041	7,154	725,969	10,514	113,381	27,931	821,933
Valuable rights	1,729,844	401	1	1,730,244	2,527	9,884	9	1,742,646
Other assets	942	0	0	942	0	0	0	942
Intangible assets under construction	0	0	0	0	0	0	0	0
<b>Total</b>	<b>2,536,059</b>	<b>38,723</b>	<b>15,082</b>	<b>2,559,700</b>	<b>13,041</b>	<b>123,416</b>	<b>27,940</b>	<b>2,668,217</b>
<b>Net book value</b>	<b>Balance at 1 Jan 2004</b>			<b>Balance at 31 Dec 2004</b>				<b>Balance at 31 Dec 2005</b>
Start-up costs	0			0				1,093
Research and development	438			754				0
Software	52,832			41,338				29,909
Valuable rights	459			58				242,898
Other assets	0			0				0
Intangible assets under construction	52,705			116,635				240,227
Prepayments for intangible fixed assets	0			0				0
<b>Total</b>	<b>106,434</b>			<b>158,785</b>				<b>514,127</b>
Information presented under the "Impact of the Consolidation Method" includes the change in the Group's reported assets due to the inclusion of ČD's subsidiary – Telematika a.s. using the full consolidation method since 1 April 2005 as disclosed in Note 2.								
Intangible fixed assets specifically comprise the Parent Company's logo which was valued at CZK 1,729 million by an independent appraiser in 1997. The Parent Company recognises accumulated amortisation in respect of the logo in the same amount.								
<b>5.2. Tangible Fixed Assets (in CZK thousand)</b>								
Acquisition cost	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Impact of the consolidation method	Additions	Disposals	Balance at 31 Dec 2005
Land	8,030,696	14,721	22,718	8,022,699	0	68,985	635,764	7,455,920
Buildings	20,634,832	599,090	99,322	21,134,600	1,919,078	854,827	315,436	23,593,069
Individual movable assets	50,833,876	1,521,644	1,355,551	50,999,969	140,068	1,992,734	1,229,534	51,903,237
– Machinery, equipment, and furniture and fixture	7,268,469	213,676	626,797	6,855,348	140,068	215,503	469,795	6,741,124
– Vehicles	43,237,641	1,307,080	721,927	43,822,794	0	1,775,949	734,837	44,863,906
– Other	327,766	888	6,827	321,827	0	1,282	24,902	298,207
Other assets	4,426	70	146	4,350	0	192	0	4,542
Tangible assets under construction	1,093,190	1,967,324	1,002,457	2,058,057	21,112	5,437,978	2,804,269	4,712,878
Prepayments	1,339,146	1,296,970	195,606	2,440,510	0	1,180,723	1,926,386	1,694,847
Valuation difference	0	0	0	0	0	8,321	0	8,321
<b>Total</b>	<b>81,936,166</b>	<b>5,399,819</b>	<b>2,675,800</b>	<b>84,660,185</b>	<b>2,080,258</b>	<b>9,543,760</b>	<b>6,911,389</b>	<b>89,372,814</b>

Accumulated depreciation	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Impact of the consolidation method	Additions	Disposals	Balance at 31 Dec 2005		
Buildings	11,242,376	432,612	83,016	11,591,971	146,515	904,743	582,100	12,061,129		
Individual movable assets	33,715,057	2,032,853	1,336,471	34,411,439	66,821	1,995,455	1,191,793	35,281,922		
– Machinery, equipment, and furniture and fixture	5,722,193	307,414	615,214	5,414,393	66,821	336,035	437,700	5,379,549		
– Vehicles	27,800,214	1,725,439	721,257	28,804,396	0	1,574,087	677,980	29,700,503		
– Other	192,650	0	0	192,650	0	85,333	76,112	201,871		
Other assets	409	0	7	402	0	6	14	394		
Tangible assets under construction	0	0	0	0	0	0	0	0		
Prepayments	0	0	0	0	0	0	0	0		
<b>Total</b>	<b>44,957,842</b>	<b>2,465,465</b>	<b>1,419,494</b>	<b>46,003,812</b>	<b>213,336</b>	<b>2,900,204</b>	<b>1,773,907</b>	<b>47,343,445</b>		
Provisions	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Impact of the consolidation method	Additions	Disposals	Balance at 31 Dec 2005		
Land	4,986	7,420	4,986	7,420	0	4,526	7,420	4,526		
Buildings	72,056	134,225	72,056	134,225	0	82,756	134,225	82,756		
Individual movable assets	1,166,192	783,117	1,166,192	783,117	0	533,360	783,213	533,264		
– Machinery, equipment, and furniture and fixture	9,075	3,304	9,075	3,304	0	6,060	3,400	5,964		
– Vehicles	1,157,117	779,813	1,157,117	779,813	0	527,300	779,813	527,300		
– Other	0	0	0	0	0	0	0	0		
Other assets	64	8	64	8	0	0	0	8		
Tangible assets under construction	6,954	0	6,954	0	0	0	0	0		
Prepayments	0	0	0	0	0	0	0	0		
<b>Total</b>	<b>1,250,252</b>	<b>924,770</b>	<b>1,250,252</b>	<b>924,770</b>	<b>0</b>	<b>620,642</b>	<b>924,858</b>	<b>620,554</b>		
Net book value	Balance at 1 Jan 2004				Balance at 31 Dec 2004				Balance at 31 Dec 2005	
Land		8,025,710				8,015,279				7,451,394
Buildings		9,320,401				9,408,404				11,449,185
Individual movable assets		15,952,628				15,805,413				16,088,051
– Machinery, equipment, and furniture and fixture		1,537,201				1,437,651				1,355,611
– Vehicles		14,280,311				14,238,585				14,636,104
– Other		135,116				129,177				96,336
Other assets		3,953				3,940				4,140
Tangible assets under construction		1,086,236				2,058,057				4,712,878
Prepayments		1,339,146				2,440,510				1,694,847
Valuation difference		0				0				8,321
<b>Total</b>		<b>35,728,074</b>				<b>37,731,603</b>				<b>41,408,816</b>

Information presented under the “Impact of the Consolidation Method” includes the change in the Group’s reported assets due to the inclusion of ČD’s subsidiary – Telematika a.s. using the full consolidation method since 1 April 2005 as disclosed in Note 2.

Land and buildings principally consist of immovable assets – train stations and depots for rail vehicles (including the peripheral area around train stations and depots) and other immovable assets used to operate freight and passenger railway transportation and other activities of the Group. Assets comprising the railway routes owned by the State are not included in land and buildings.

Vehicles principally comprise rail vehicles (locomotives, passenger coaches, wagons and other rail vehicles) used in the course of providing freight and passenger transportation services. On the basis of stock count procedures and analyses, the Company has identified asset components, specifically rail vehicles, where there is significant uncertainty regarding their future utilisation. These assets have been provided for as equal to the difference between the net book value and estimated fair value (typically the net proceeds of the sale or disposal of the relevant asset). The level of provisioning for tangible fixed assets was reduced as a result of the updated estimate of the future utilisation and fair value of assets, namely rail vehicles.

Tangible assets under construction principally include the amount of CZK 3,598,088 thousand comprising the costs of acquiring seven sets of rail vehicles with moving bodies ("Pendolino"). During 2004 and 2005, the taken-over sets of rail vehicles were put into test operation. Putting these sets of rail vehicles into operation and the commencement of their depreciation depends on the fulfilment of all of the contractual requirements. The most significant item of prepayments is an amount of CZK 991,362 thousand, composed of the acquisition costs of the Ampz and Bmz passenger wagons (first and second class wagons).

The most significant disposals of tangible assets were also due to the refinements being made to the transformation of the former České dráhy, s.o. with an equity impact as described in Note 5.7.

Other disposals included disposals of buildings and land at an acquisition cost of CZK 291,995 thousand due to the sale of these assets to SŽDC as part of the settlement of the property relations. Further disposals relate to the disposals of locomotives at an acquisition cost of CZK 277,032 thousand, other rail vehicles at an acquisition cost of CZK 358,984 thousand. The significant disposal in prepayments for tangible fixed assets and the increase of fixed assets under construction is due to the recognition of the portion of acquired rail vehicles with moving bodies ("Pendolino") in compliance with the contract. As of 31 December 2004, the prepayments amounted to CZK 1,143,540 thousand.

The most significant addition to tangible fixed assets was the purchase of train set no. 471 (pantograph) in the amount of CZK 615,563 thousand.

#### **5.2.1. Pledged Assets**

The Parent Company holds assets that were pledged as security – train sets of the 471 series at an acquisition cost of CZK 606,780 thousand.

#### **5.2.2. Tangible Fixed Assets not Reported on the Face of the Balance Sheet**

The aggregate amount of tangible fixed assets not reported on the face of the balance sheet as of 31 December 2005 was CZK 1,540 million (2004: CZK 1,798 million). These include items under CZK 10 thousand that are recorded only in the underlying operating records. These items are recognised in expenses at the moment of acquisition in accordance with applicable legislation.

**5.2.3. Investment Grants**

The most significant portion of received investment grants includes grants from the State Fund of Transport Infrastructure that amounted to CZK 443,864 thousand and CZK 963,788 thousand in the years ended 31 December 2005 and 2004, respectively.

**5.2.4. Assets Held under Finance Leases (in CZK thousand)**

Description	Date of inception	Term in months	Total lease value	Payments made in 2005	Due in 2006	Due in following years
AU analyser	June 2003	36	2,095	1,163	698	234
Freight rail vehicles	October 2005	96	145,613	4,397	18,202	123,014
Cars	November 2003	36	988	220	275	0
Cars	July 2004	36	473	105	158	79
Cars	August 2004	36	881	196	294	171
Technology units	2003	36	2,080	693	282	0
Technology units	August 2005	48	10,848	1,132	2,713	7,003
Cars	January 2005	60	72,921	13,235	14,822	44,864
<b>Total</b>			<b>235,899</b>	<b>21,141</b>	<b>37,444</b>	<b>175,365</b>

Assets held under finance leases are not included in the assets reported on the balance sheet. The above figures are net of VAT and include a commission to the leasing company.

**5.2.5. Gains and Losses Arising from the Sales Inventory and Fixed Assets among Consolidation Group Entities**

The most significant sales in the consolidation group were effected between the Parent Company and ČD - Telematika a.s. where the gains of the subsidiary for the year ended 31 December 2005 amounted to CZK 16,663 thousand.

**5.3. Non-Current Financial Assets****5.3.1. Equity Investments in Subsidiaries**

As of 31 December 2005 (in CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2005	Valuation at 31 Dec 2005
RAILREKLAM, spol. s r.o.	Prague 1, Klimentská 36/1652	29,250	6,761	100%	36,011	4,239	36,011
RailReal, a.s.	Prague 3, Olšanská 1a	660	442	66%	1,669	-439	1,102
ČD Reality a.s.	Prague 3, Prvního pluku 2a/81	1,020	-145	51%	1,715	47	875
ČD Generalvertretung GmbH	Frankfurt am/M, Germany	1,592	-142	100%	*)	2,919	1,450
Dopravní vzdělávací institut, a.s.	Prague 1, Hybernská 1014/13	3,200	932	100%	4,132	932	4,132
Smíchov Station Development, a.s.	Prague 1, Revoluční 655/1	1,020	-302	51%	1,267	-733	718
ČD travel, s.r.o.	Prague 1, Hybernská 1034	7,500	-332	100%	7,168	-332	7,168
Trade CDT s.r.o.	Prague 3, Pernerova 2819/2a	500	0	100%	395	-105	500
<b>Total</b>		<b>44,742</b>	<b>7,214</b>				<b>51,956</b>

\*) The figure is not available.



As of 31 December 2004 (in CZK thousand)

Business name of the entity	Registered office	Cost	Provision	Ownership percentage	Equity	Profit or loss for 2004	Valuation at 31 Dec 2004	Valuation at 31 Dec 2004 using the method of 2005 **)
RAILREKLAM, spol. s r.o.	Prague 1, Klimentská 36/1652	29,250	0	100%	34,745	6,522	29,250	34,745
RailReal, a.s.	Prague 3, Olšanská 1a	660	0	66%	2,108	301	660	1,391
ČD Reality a.s.	Prague 3, Prvního pluku 2a/81	1,020	169	51%	1,668	-332	851	851
ČD Generalvertretung GmbH	Frankfurt am/M Germany	1,592	0	100%	*)	*)	1,592	*)
<b>Total</b>		<b>32,522</b>	<b>169</b>				<b>32,353</b>	<b>36,987</b>

\*) The figure is not available.

\*\*) Due to the change in the method of valuation of non-current financial assets in 2005, as described in Note 4.19. the table also presents the comparative information as of 31 December 2004 using the equity method of accounting.

The equity investment in RAILREKLAM, spol. s r.o. was made on the basis of a Founding Deed dated 21 February 1991. On the basis of an agreement dated 28 December 2000, a 50 percent equity investment held by Österreichisches Verkehrsbüro AG was transferred to the Company for CZK 29 million. As such, the Company became the sole owner of RAILREKLAM, spol. s r.o. which is engaged in advertising activities specifically related to railroad transportation.

RailReal a.s. was incorporated following its registration in the Register of Companies on 6 December 2000. The Company acquired the shares of RailReal a.s. on the basis of deeds of donation dated 20 December 2000. The entity is principally engaged in undertaking projection and engineering activities in regard to investment construction.

ČD Reality a.s. is engaged in investment construction engineering activities, preparation and implementation of revitalisation projects and other related activities.

ČD Generalvertretung GmbH engages in the representation of the Company in its business and other interests abroad, direct setting of prices for services, conclusion and mediation of contracts for freight transport fees, and representation in other business areas and areas of interest.

Smíchov Station Development, a.s., registered in the Register of Companies on 1 June 2005, principal activities: lease of real estate, apartments and non-residential premises.

ČD travel, s.r.o., registered in the Register of Companies on 1 August 2005, principal activities: travel agency.

Dopravní vzdělávací institut, a.s., registered in the Register of Companies on 21 September 2005, principal activities: organisation of courses, educational events and training activities.

Trade CDT s.r.o, registered in the Register of Companies on 9 November 2005, principal activities: mediation of sale and services and wholesale. The company is fully owned by ČD - Telematika a.s.



5.3.2. Equity Investments in Associates  
As of 31 December 2005 (in CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2005	Valuation at 31 Dec 2005
CR-City a.s.	Prague 3, Olšanská 1a	680	-566	34%	336	-263	114
BOHEMIAKOMBI s.r.o.	Prague 1, Opletalova 6	822	4,860	20%	28,408	-1,859	5,682
Masaryk Station Development a.s.	Prague 3, Olšanská 1a	680	-647	34%	99	-1,713	33
<b>Total</b>		<b>2,182</b>	<b>3,647</b>				<b>5,829</b>

As of 31 December 2004 (in CZK thousand)

Business name of the entity	Registered office	Cost	Provision	Ownership percentage	Equity	Profit or loss for 2004	Valuation at 31 Dec 2004	Valuation at 31 Dec 2004 using the method of 2005 **)
CD Centrum a.s.	Brno, Heršpická 813/5	2,940	1,272	49%	3,405	-1,812	1,668	1,668
CR-City a.s.	Prague 3, Olšanská 1a	680	680	34%	-7,846	-8,897	0	-2,668
BOHEMIAKOMBI s.r.o.	Prague 1, Opletalova 6	822	0	20%	30,267	-175	822	6,053
Masaryk Station Development a.s.	Prague 3, Olšanská 1a	680	0	34%	1,812	-188	680	616
<b>Total</b>		<b>5,122</b>	<b>1,952</b>				<b>3,170</b>	<b>5,669</b>

\*) Due to the change in the method of valuation of non-current financial assets in 2005, as described in Note 4.19. the table also presents the comparative information as of 31 December 2004 using the equity method of accounting.

The Company sold its investment in ČD CENTRUM a.s. to MORÁVKA CENTRUM, a.s. on the basis of the Securities Purchase Contract of 8 June 2005.

## 5.3.3. Other Non-Current Equity Investments and Securities (in CZK thousand)

Type of security and investment	Cost	Provision	Valuation at 31 Dec 2005	Valuation at 31 Dec 2004
PraK,a.s.	850	0	850	850
STROJEXPORT a.s.	2,300	0	2,300	2,300
Hit Rail B.V.	4,017	0	4,017	4,017
EUROFIMA	262,873	0	262,873	262,873
INTERCONTAINER-INTERFRIGO.o.s.	5,189	0	5,189	5,189
INTERNATIONALE SPEDITION Děčín, a.s.	400	392	8	0
<b>Total</b>	<b>275,629</b>	<b>392</b>	<b>275,237</b>	<b>275,229</b>

In 2004, the Company increased its shareholding in EUROFIMA through the purchase of 1,300 shares at a cost of CHF 6,518 thousand. The Company's holding of EUROFIMA's share capital thereby increased to 1 percent. EUROFIMA is a European company engaged in funding rail vehicles and is based in Basle (Switzerland). EUROFIMA is tasked with obtaining, under the best possible conditions, rail vehicles for railway administration organisations that are its shareholders. The Czech Republic signed the Company Formation Treaty and Amendment Protocol on Formation on 26 July 2002.

In 2004, the Company increased its investment in INTERCONTAINER-INTERFRIGO o.s. by EUR 55 thousand.

## 5.3.4. Securities and Investments under Equity Accounting

Securities and investments under equity accounting include the Parent Company's share of the equity of the subsidiary ČD - Telematika a.s. as of 31 December 2004, as described in Note 2.

## 5.4. Inventory (in CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Spare parts for machinery and equipment	388,013	365,352
Spare parts and other components for rail vehicles and locomotives	496,530	465,239
Other spare parts and other minor components	235,261	284,511
Fuels and other oil products	37,277	95,622
Switches, turntables, traverse tables and components for rail superstructures	168,296	148,574
Other	629,332	409,918
Work in progress	16,024	14,182
Prepayments for inventory	22,538	95,884
<b>Total cost</b>	<b>1,993,271</b>	<b>1,879,282</b>
Provisions	56,760	102,427
<b>Total net book value</b>	<b>1,936,511</b>	<b>1,776,855</b>

The Parent Company records provisions against redundant inventory components and/or inventory that carries the risk of its net realisable value being lower than cost.

The decrease in provisioning arises from the fact that during 2005 the Parent Company undertook a detailed assessment of the future utilisation of inventories, specifically those that were provided for in the prior period due to existing uncertainties. Based upon this assessment, a portion of the material was consumed, disposed of or sold and a portion was newly earmarked as assets required for use in the long-term.

**5.5. Short-Term Receivables****5.5.1. Trade Receivables (in CZK thousand)**

Year	Category	Before due date	Past due (in days)					Total	Total
			0 – 90	91 – 180	181 – 365	366 – 730	731 and greater		
2005	Gross	2,665,011	284,598	235,261	36,060	50,553	18,891	625,363	<b>3,290,374</b>
	Provisions	0	0	57,432	24,445	46,858	17,692	146,427	<b>146,427</b>
	Net	2,665,011	284,598	177,829	11,615	3,695	1,199	478,936	<b>3,143,947</b>
2004	Gross	2,634,678	193,602	34,323	24,686	51,913	628	305,153	<b>2,939,831</b>
	Provisions	0	6	110	9,846	51,913	628	62,503	<b>62,503</b>
	Net	2,634,678	193,596	34,213	14,839	0	0	242,650	<b>2,877,328</b>

**5.5.2. Tax Receivables**

Tax receivables largely consisted of receivables arising from VAT.

**5.5.3. Prepayments Made**

Short-term prepayments made largely consisted of prepayments made for the supply of services (electricity, heat, etc).

**5.6. Estimated Receivables (in CZK thousand)**

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Cross-border rentals for passenger coaches	552,308	591,755
Cross-border rentals for freight wagons	224,000	180,708
Income from international transportation	432,981	456,519
Other	54,040	134,444
<b>Total estimated receivables</b>	<b>1,263,329</b>	<b>1,363,426</b>

Cross-border rentals are billed retroactively for two months (freight transportation) and 12 months (passenger transportation).

Income from international transportation represents an amount due from the transportation services provided as of 31 December 2005 which were not billed to the foreign railway organisations and an amount arising from unsettled operating output in border regions in respect of the neighbouring railway organisations. This receivable is typically settled with a delay of one or more months.

**5.7. Equity**

The Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

Information about the substance of individual equity components is presented in Note 4.7. to the consolidated financial statements.

The revaluation of the non-current financial assets using the equity method of accounting amounted to CZK 10,862 thousand.

The increase in statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 327,083 thousand charged against the share premium. Until 31 December 2005, CZK 150,930 thousand was drawn from the social fund.

The loss of the previous reporting period of CZK 617,968 thousand and share of income from associates of CZK 402 thousand were transferred to accumulated loss and the consolidation reserve fund.

The most significant amount in the change of other capital funds was the impact of the transfer of real estate between the Company and SŽDC in the aggregate net amount of CZK 385 million. Due to the refinements of the transformation of the former state organisation České dráhy, certain real estate that was previously recorded by SŽDC was recognised as the assets of the Company and, concurrently, certain real estate was removed from the accounting books of the Company and assigned to SŽDC. These predominantly include land plots divided by plat maps at the beginning and the end of railway stations. Management of the Company believes that further changes, if any, that may occur in the future for the reasons referred to above are immaterial.

The change in other capital funds was additionally due to the recognition of gifts, subsidies and unrecognised fixed assets identified during the stock taking of the assets of the Company.

#### 5.8. Reserves (in CZK thousand)

	Balance at 1 Jan 2004	Charge	Use	Balance at 31 Dec 2004	Charge	Use	Balance at 31 Dec 2005
Reserve for discounts and claims	26,458	35,197	26,458	35,197	29,437	35,197	29,437
Reserve for rents	18,345	15,477	18,345	15,477	16,271	15,477	16,271
Reserve for legal disputes	0	0	0	0	9,290	0	9,290
Reserve for repairs of assets	4,743	0	4,743	0	0	0	0
Reserve for the Complementary Social Programme	52,618	0	52,618	0	0	0	0
Reserve for outstanding vacation days	301,257	0	168,275	132,982	75,443	132,982	75,443
Other reserves	0	0	0	0	3,783	0	3,783
<b>Total reserves</b>	<b>403,421</b>	<b>50,674</b>	<b>270,439</b>	<b>183,656</b>	<b>134,224</b>	<b>183,656</b>	<b>134,224</b>

The significant reduction of the reserve for outstanding vacation days in 2005 was due to the increased use of vacation days by employees of the Company and the reduction of the number of employees.

All of the reserves charged in the year ended 31 December 2005 are non-tax deductible.

#### 5.9. Long-Term Payables (in CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Payable to EUROFIMA	3,045,467	1,827,839
Payable to the City of Karlovy Vary	44,338	44,000
Long-term received prepayments	18,319	611
Other	161,142	338
<b>Total long-term payables</b>	<b>3,269,266</b>	<b>1,872,788</b>

In 2004, the Parent Company received a long-term loan from EUROFIMA to finance the purchase of rail vehicles. This loan was increased in the year ended 31 December 2005. This loan is collateralised by a state guarantee. A portion of the long-term payables represents the Company's payable to the City of Karlovy Vary in connection with the construction of the bus and train station in Karlovy Vary.

The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2005 and 2004 was CZK 19,371 thousand and CZK 8,099 thousand, respectively.

**5.10. Short-Term Payables****5.10.1. Trade Payables (in CZK thousand)**

Year	Category	Before due date	Past due (in days)					Total	Total
			0 – 90	91 – 180	181 – 365	366 – 730	731 and greater		
2005	Short-term	3,452,216	279,881	13,601	6,652	12,613	7,834	320,581	<b>3,772,797</b>
2004	Short-term	2,927,704	274,401	10,247	2,748	-238	274	287,432	<b>3,215,136</b>

**5.10.2. Tax Payables and Subsidies**

As of 31 December 2005, tax payables were largely composed of personal income taxation deducted from the gross wages of the Company's employees and an outstanding amount of the investment subsidy received by the Company from municipalities of CZK 43,642 thousand (2004: CZK 39,967 thousand).

The Company records no amounts payable arising from social security contributions, contributions to the state employment policy, public health insurance payables or tax arrears.

**5.10.3. Prepayments Received**

As of 31 December 2005, short-term prepayments received amounted to CZK 339,167 thousand (2004: CZK 285,277 thousand) and were largely composed of rent prepayments.

**5.11. Estimated Payables (in CZK thousand)**

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Rental for passenger coaches of foreign companies in the Czech Republic	514,825	472,081
Rental for freight wagons of foreign companies in the Czech Republic	105,000	109,454
Costs of international transportation	190,483	290,286
Other	354,507	151,064
<b>Total estimated payables</b>	<b>1,164,815</b>	<b>1,022,885</b>

Rentals for coaches and wagons of foreign companies in the Czech Republic are billed retroactively for two months (freight transportation) and 12 months (passenger transportation).

Costs of international transportation represent an amount payable arising from unsettled operating output in border regions in respect of the neighbouring railway organisations. This payable is typically settled with a delay of one or more months.

**5.12. Bank Loans****Long-term Bank Loans (in CZK thousand)**

Bank	Currency	Balance at 31 Dec 2005	Balance at 31 Dec 2004	Interest rate	Collateral form
ČSOB	EUR	1,422,839	721,221	3M EURIBOR + 0.5	State guarantee
<b>Total</b>		<b>1,422,839</b>	<b>721,221</b>		

The Parent Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium are Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The aggregate amount of the loan facility is EUR 92,065 thousand. The loan has been provided to finance the renovation of the Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. As of 31 December 2005, EUR 61,376 thousand was drawn (a one-off draw-down on 25 November 2005). As of 31 December 2004, EUR 26,305 thousand was drawn (3 draw-downs of EUR 8,768 thousand). The Company began repaying the loan principal in 2005 (repayments on 25 May 2005 and 25 November 2005, each of EUR 1,315 thousand). The final maturity date of the loan is 25 November 2014.

The portion of bank loans maturing after one year from the balance sheet date is included in long-term loans.



**Short-Term Bank Loans**

The portion of bank loans maturing within one year from the balance sheet date is included in short-term loans. As of 31 December 2005, the portion of bank loans maturing within one year from the balance sheet date amounts to CZK 281,088 thousand (31 December 2004: CZK 80,136 thousand). The Group records overdraft loans amounting to CZK 327,138 thousand as of 31 December 2005 as short-term bank loans.

The amount of capitalised interest on the loan from ČSOB for the year ended 31 December 2005 was CZK 26,838 thousand (2004: CZK 25,824 thousand).

**5.13. Income Taxes****5.13.1. Tax Payable**

The Parent Company has reported a tax loss since its incorporation on 1 January 2003. The tax loss amounted to CZK 2,726,682 thousand, CZK 2,894,691 thousand and CZK 1,294,660 thousand for the years ended 31 December 2005, 2004 and 2003, respectively.

The tax payable reported by the Group is the income tax of subsidiaries as individual legal entities.

**5.13.2. Deferred Taxation**

The Company has determined a deferred tax asset as follows (in CZK thousand):

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Tangible and intangible fixed assets	-959,288	-423,873
Non-current financial assets	0	96
Trade receivables	23,352	10,913
Inventory	12,839	24,582
Reserves	31,306	44,078
Unpaid penalty	23,544	0
Accumulated tax loss	1,657,745	1,005,444
Deferred tax from consolidation adjustments	28,449	0
<b>Deferred tax asset – unrecognised</b>	<b>817,947</b>	<b>661,240</b>
Tangible and intangible fixed assets	-61,455	0
Non-current financial assets	0	0
Trade receivables	7,927	0
Inventory	1,109	0
Reserves	0	0
Other	1,963	0
Accumulated tax loss	39,616	0
Deferred tax from consolidation adjustments	35,626	0
<b>Deferred tax asset – recognised</b>	<b>24,786</b>	<b>0</b>
<b>Total deferred tax asset</b>	<b>789,497</b>	<b>661,240</b>

The aggregate deferred tax amount is predominantly impacted by the Parent Company. The Parent Company has decided not to recognise the deferred tax asset on the grounds of prudence and due to the uncertainty regarding the availability of future taxable profits. The recognised deferred taxation predominantly relates to assets and liabilities of the subsidiaries.

**5.14. Accrued Expenses and Deferred Income**

Accrued expenses predominantly comprise the estimated additional payment of contractual wages to the Group's management for the year ended 31 December 2005.

Deferred income predominantly includes income from discount cards and rental income from three gas stations leased to OMV and ARAL, which was prepaid for 20 years.

**5.15. Income from the Sale of the Company's Products and Services (in CZK thousand)**

	Year ended 31 Dec 2005			Year ended 31 Dec 2004		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income from freight transportation	5,575,471	10,903,974	16,479,445	5,676,589	12,002,514	17,679,103
Income from passenger transportation	3,918,749	1,519,423	5,438,172	3,743,674	1,557,201	5,300,875
Income from other transportation	20,346	0	20,346	19,426	0	19,426
Income from securing railway routes	11,243,979	0	11,243,979	11,374,912	0	11,374,912
Income from securing modernisation and development railway routes	34,817	0	34,817	40,174	0	40,174
Income from other services	2,146,776	95,212	2,241,988	2,135,631	0	2,135,631
<b>Income from the sale of the Company's products and services</b>	<b>22,940,138</b>	<b>12,518,609</b>	<b>35,458,747</b>	<b>22,990,406</b>	<b>13,559,715</b>	<b>36,550,121</b>

Cross-border sales include the share of the Parent Company of income from the international transportation and sales from the cross-border rent of coaches and wagons.

Income from securing railway routes represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 4,488,040 thousand (2004: CZK 4,919,217 thousand) and operability of CZK 6,755,939 thousand (2004: CZK 6,455,695 thousand). A description of the transactions between the Parent Company and SŽDC is provided in Note 8.2.

Income from other services includes proceeds from the other activities of the Group, specifically income from the lease of land, buildings and non-residential premises and apartments, income for the commercial-technical services, income from heat and electricity distribution and income from health insurers.

**5.16. Consumed Purchases (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Consumed material	2,289,285	2,632,706
Consumed energy	2,623,668	2,500,338
Consumption of fuels	2,163,347	1,944,111
<b>Total consumed purchases</b>	<b>7,076,300</b>	<b>7,077,155</b>

## 5.17. Services (in CZK thousand)

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Repairs and maintenance	3,722,721	3,958,375
Travel expenses	256,816	289,631
Other rental	79,901	98,952
Use of railway routes, management of operations	5,695,136	5,810,085
Rent for railway coaches and wagons	1,145,050	1,196,308
Freight charges	247,254	216,116
Services of dining and sleeping carriages	138,016	126,214
Services associated with the use of buildings	223,604	230,600
Cleaning and shifting of coaches and wagons	133,668	118,194
Other services	1,161,527	1,066,148
<b>Total</b>	<b>12,803,693</b>	<b>13,110,623</b>

Other services predominantly include expenses related to the environment, telecommunication, education, low value assets, and similar charges.

## 5.18. Change in Reserves and Provisions Relating to Operating Activities (in CZK thousand)

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Change in reserves	-49,432	-219,765
Change in provisions against receivables	83,924	7,136
Change in provisions against tangible fixed assets	-304,216	-325,481
Change in provisions against non-current financial assets	-2,521	2,121
Change in provisions against inventory	-45,667	-216,860
<b>Total change in reserves and provisions relating to operating activities</b>	<b>-317,912</b>	<b>-752,849</b>

The decrease in the level of reserves between 2004 and 2005 is largely due to the use of the reserve for outstanding vacation days (refer to Note 5.8.). Additional information about the decrease in provisioning against tangible fixed assets and inventory is provided in Notes 5.2. and 5.4., respectively.

## 5.19. Other Operating Income (in CZK thousand)

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Settlement of losses from passenger transportation from the State budget including the subsidy for student fare	2,625,704	4,867,405
Settlement of losses from passenger transportation from the regional budgets including the subsidy for student fare	4,469,286	2,174,846
Other subsidies	720,061	524,337
Recoveries of receivables written off and transferred	4,240	399
Contractual penalties and default interest	116,732	363
Compensation for damage from insurers and other entities	122,557	126,586
Other	516,480	502,731
<b>Total other operating income</b>	<b>8,575,060</b>	<b>8,196,667</b>

In the year ended 31 December 2004, the State partly guaranteed and subsidised the loss in the regional passenger transportation. Since 2005, the provision of the subsidy for the regional passenger transportation has been fully transferred to regional authorities. Other subsidies predominantly include the subsidy for the Complementary Social Programme related to the restructuring of the workforce. The "Other" line includes, for instance, payments of employees for boarding, vacation, commissions from the sale of transportation vouchers (tickets etc).

**5.20. Other Operating Expenses (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Contractual penalties and default interest	3,947	4,815
Write-offs of receivables and transferred receivables	26,206	8,217
Deficits and damage relating to operating activities	29,033	68,745
Insurance	171,878	142,803
Employee uniforms and lump sum payments	151,764	105,226
Compensation for asset damage and impaired health	59,262	38,319
Membership allowances	28,016	31,258
Other operating charges	55,562	35,628
<b>Total other operating expenses</b>	<b>525,668</b>	<b>435,011</b>

**5.21. Other Financial Income and Expenses**

Other financial income and expenses largely include foreign exchange rate gains and losses. A significant portion of the positive impact of the exchange rate gains and losses on the results of operations for the year ended 31 December 2005 was due to the positive development of the EUR exchange rate in relation to loans and borrowings in foreign currencies as disclosed in Notes 5.9. and 5.12.

**5.22. Extraordinary Income and Expenses**

Extraordinary income predominantly includes the sale of a part of business (construction administration overseeing development of railway routes) to SŽDC as of 1 January 2004. The net book value of the sold assets and liabilities (largely tangible fixed assets) of CZK 15,882 thousand and the selling price of CZK 117,867 thousand were recorded as extraordinary expenses and income, respectively.

**6. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES**

The following table summarises the average recalculated number of the Company's employees and managers for the years ended 31 December 2005 and 2004: 2005 (in CZK thousand)

	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	66,411	16,422,088	5,416,383	645,833	22,484,305
Management	328	213,446	73,919	4,900	292,264
<b>Total</b>	<b>66,739</b>	<b>16,635,533</b>	<b>5,490,302</b>	<b>650,734</b>	<b>22,776,569</b>

2004 (in CZK thousand)

	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	73,547	16,847,520	5,675,174	621,576	23,144,270
Management	278	165,389	57,015	2,336	224,740
<b>Total</b>	<b>73,825</b>	<b>17,012,909</b>	<b>5,732,189</b>	<b>623,912</b>	<b>23,369,010</b>

In addition to the possibility of using reduced fares, the members of the Company's statutory and supervisory bodies were provided with cash bonuses of CZK 3,312 thousand and CZK 3,466 thousand in 2005 and 2004, respectively. Management of the Group is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

## 7. CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS

The Group has implemented systematic measures designed to protect the environment and to put environmentally friendly procedures in place. In 1999, an information system was installed for monitoring expenses associated with consumption of energy, water and costs associated with environmental protection (the "environmental information system"). With effect from 2000, the Environmental Department of the CEO's Office of the Parent Company has been undertaking internal environmental audits on an annual basis. The Parent Company has not been subject to a complete environmental audit. The potential environmental costs to be ultimately incurred by the Parent Company, if any, cannot presently be determined and no adjustments have been recorded in respect of these costs in these consolidated financial statements. The costs of removing environmental damage already caused by the Parent Company are charged to operating expenses.

On 24 February 2005, the Parent Company entered into the Framework Lease Contract for the purchase of railway vehicles in the aggregate amount of CZK 1.2 billion. Railway vehicles received under the finance lease arrangement in the current reporting period are disclosed in Note 5.2.2., other railway vehicles will be taken over in the following periods. The Parent Company issued a blank bill with restrictive clause for the benefit of CityLeasing, s.r.o. as a collateralising instrument. In compliance with the bill arrangement, the lessor will be entitled to fill in the bill amount equal to the amount due for the rent and facilities, up to 40 percent of the acquisition cost, net of VAT of the leased assets, provided the lease contract is breached.

## 8. OTHER INFORMATION

### 8.1. Significant Factors Impacting the Company's Operations

The Parent Company was formed pursuant to, and its operations are governed by, general legal regulations governing joint stock companies and the Transformation Act. The Transformation Act, inter alia, sets out the scope of the Parent Company's assets and its role in operating railway routes and rendering transportation services in the public interest.

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designed categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Parent Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. Management of the Parent Company has determined that the funds earmarked in the State budget for settling public service commitments resulting from contracted volumes of long-distance and regional transportation output in 2005 are lower than the aggregate loss.

At the date of the consolidated financial statements, all contracts for regional transportation services among self-governing units and the parent company for 2006 were signed.

A draft of the agreement with the State setting out the anticipated volume of compensation for the year ending 31 December 2006 has been submitted by the Parent Company. Pursuant to the received monthly upfront financing and prior year experience, management of the Parent Company anticipates that the agreement with the State setting out the proposed level of compensation will be entered into during 2006. Similarly as in 2005, management of the Parent Company anticipates that the aggregate level of compensation received for the year ending 31 December 2006 will be lower than the aggregate loss from long-distance and regional passenger transportation.

The Parent Company operates railway routes on the basis of a three year agreement put in place with SŽDC. The current agreement, which, inter alia, stipulates the level of compensation (the Parent Company's income) for operating railway routes, has been entered into for the period from 2003 to 2005. At the end of 2005, a new contract involving the method of securing and operating the railway routes, their operability and modernisation in the public interest for 2006 – 2009 was entered into between ČD, a.s. and SŽDC, s.o.

The Parent Company makes payments to SŽDC for the use of railway routes. The level of this compensation (cost to the Parent Company) is established in Pricing Act 526/1990 Coll., as amended.

**8.2. Transactions with SŽDC****Expenses and Income Related to the Railway Route**

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2005 and 2004 were as follows:

**Year Ended 31 December 2005 (in CZK thousand)**

	Expenses	Income
Securing railway routes – management of operation	–	4,488,040
Securing railway routes – maintenance of operability	–	6,755,939
Securing modernisation and development railway routes	–	34,817
Use of railway routes – passenger transport	1,483,719	–
Use of railway routes – freight transport	4,200,261	–
<b>Total</b>	<b>5,683,980</b>	<b>11,278,796</b>

**Year Ended 31 December 2004 (in CZK thousand)**

	Expenses	Income
Securing railway routes – management of operation	–	4,919,217
Securing railway routes – maintenance of operability	–	6,455,695
Securing modernisation and development railway routes	–	40,174
Use of railway routes – passenger transport	1,468,885	–
Use of railway routes – freight transport	4,341,201	–
<b>Total</b>	<b>5,810,086</b>	<b>11,415,086</b>

Income from the securing of railway routes and modernisation and development of railway routes is reported as income from the sale of the Company's products and services and is disclosed in Note 5.15. The costs of providing these services are reported as a component of the Company's total expenses.

The costs of using railway routes are reported as services and are disclosed in Note 5.17.

**Receivables and Payables**

As of 31 December 2005, the Parent Company recorded amounts due to and from SŽDC. The total net balance of these amounts represents a payable of CZK 526,594 thousand (2004: a payable of CZK 628,456 thousand), which is included within trade payables. In addition, the Parent Company records a payable arising from the unbilled supplies from SŽDC, disclosed as an estimated payable amounting to CZK 79,775 thousand as of 31 December 2005. Receivables and payables of subsidiaries from and to SŽDC are immaterial.

**8.3. Post Balance Sheet Events**

On 14 December 2005, a Share Subscription Contract was entered into whereby 51 percent of the shares of the subsidiary Traťová strojná společnost, a.s. is owned by České dráhy, a.s. and 49 percent is held by OHL ŽS, a.s. (former ŽS Brno, a.s.). This step was completed in early 2006 when OHL ŽS, a.s. increased the share capital of the subsidiary by making a cash and a non-cash investment.

No significant events occurred subsequent to the consolidated balance sheet date that would require adjustment to, or disclosure in, the financial statements.



**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

Name of the Company: České dráhy, a.s.  
Registered Office: nábřeží L. Svobody 1222, Prague 1, 110 15  
Legal Status: Joint Stock Company  
Corporate ID: 70994226

**Components of the Financial Statements:**

Balance Sheet  
Profit and Loss Account  
Statement of Changes in Equity  
Cash Flow Statement  
Notes

The financial statements were prepared on 11 May 2006.

**Statutory body of the reporting entity**

**Vladimír Filip**  
Member of the Board of Directors and Deputy CEO for Economics



**Jiří Kolář**  
Member of the Board of Directors and Deputy CEO for Passenger Transport

## Balance Sheet – full version as of 31 December 2005 (in CZK thousand)

	Gross	31 Dec 2005 Adjustment	Net	31 Dec 2004 Net
<b>TOTAL ASSETS</b>	<b>99,194,208</b>	<b>-49,180,789</b>	<b>50,013,419</b>	<b>47,301,125</b>
<b>A. Receivables for subscribed capital</b>	–	–	–	–
<b>B. Fixed assets</b>	<b>90,698,436</b>	<b>-49,009,336</b>	<b>41,689,100</b>	<b>38,728,883</b>
<b>B.I. Intangible fixed assets</b>	<b>2,873,537</b>	<b>-2,505,069</b>	<b>368,468</b>	<b>158,785</b>
B.I.2. Research and development	102,597	-102,597	–	754
B.I.3. Software	687,115	-672,171	14,944	41,338
B.I.4. Valuable rights	1,729,359	-1,729,359	–	58
B.I.6. Other intangible fixed assets	942	-942	–	–
B.I.7. Intangible fixed assets under construction	353,524	–	353,524	116,635
<b>B.II. Tangible fixed assets</b>	<b>85,566,741</b>	<b>-46,504,267</b>	<b>39,062,474</b>	<b>37,731,603</b>
B.II.1. Land	7,432,378	-4,526	7,427,852	8,015,279
B.II.2. Structures	21,165,860	-11,759,987	9,405,873	9,408,404
B.II.3. Individual movable assets and sets of movable assets	50,591,050	-34,739,352	15,851,698	15,805,413
B.II.6. Other tangible fixed assets	4,542	-402	4,140	3,940
B.II.7. Tangible fixed assets under construction	4,678,074	–	4,678,074	2,058,057
B.II.8. Prepayments for tangible fixed assets	1,694,837	–	1,694,837	2,440,510
<b>B.III. Non-current financial assets</b>	<b>2,258,158</b>	<b>–</b>	<b>2,258,158</b>	<b>838,495</b>
B.III.1. Equity investments in subsidiaries	1,957,092	–	1,957,092	32,353
B.III.2. Equity investments in associates	5,829	–	5,829	530,913
B.III.3. Other securities and investments	275,237	–	275,237	275,229
B.III.6. Acquisition of non-current financial assets	20,000	–	20,000	–
<b>C. Current assets</b>	<b>8,411,618</b>	<b>-171,453</b>	<b>8,240,165</b>	<b>8,552,124</b>
<b>C.I. Inventories</b>	<b>1,953,168</b>	<b>-53,498</b>	<b>1,899,670</b>	<b>1,776,855</b>
C.I.1. Material	1,920,396	-53,498	1,866,898	1,661,560
C.I.2. Work in progress and semifinished goods	3,975	–	3,975	14,182
C.I.4. Animals	3	–	3	3
C.I.5. Goods	6,549	–	6,549	5,226
C.I.6. Prepayments for inventory	22,245	–	22,245	95,884
<b>C.II. Long-term receivables</b>	<b>9,385</b>	<b>-257</b>	<b>9,128</b>	<b>5,317</b>
C.II.1. Trade receivables	27	–	27	–
C.II.5. Long-term prepayments made	3,273	–	3,273	3,239
C.II.7. Other receivables	6,085	-257	5,828	2,078
<b>C.III. Short-term receivables</b>	<b>4,607,971</b>	<b>-117,698</b>	<b>4,490,273</b>	<b>4,657,972</b>
C.III.1. Trade receivables	3,047,338	-113,753	2,933,585	2,877,328
C.III.6. State – tax receivables	26,575	–	26,575	136,960
C.III.7. Short-term prepayments made	233,498	–	233,498	229,850
C.III.8. Estimated receivables	1,257,979	–	1,257,979	1,363,426
C.III.9. Other receivables	42,581	-3,945	38,636	50,408
<b>C.IV. Current financial assets</b>	<b>1,841,094</b>	<b>–</b>	<b>1,841,094</b>	<b>2,111,980</b>
C.IV.1. Cash on hand	83,768	–	83,768	65,398
C.IV.2. Cash at bank	1,755,218	–	1,755,218	2,046,582
C.IV.3. Short-term securities and investments	2,108	–	2,108	–
<b>D. I. Other assets</b>	<b>84,154</b>	<b>–</b>	<b>84,154</b>	<b>20,118</b>
D.I.1. Deferred expenses	83,190	–	83,190	19,903
D.I.2. Complex deferred expenses	62	–	62	62
D.I.3. Accrued income	902	–	902	153

	31 Dec 2005	31 Dec 2004
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>50,013,419</b>	<b>47,301,125</b>
<b>A. Equity</b>	<b>37,151,210</b>	<b>37,575,941</b>
<b>A.I. Share capital</b>	<b>20,000,000</b>	<b>20,000,000</b>
A.I.1. Share capital	20,000,000	20,000,000
<b>A.II. Capital funds</b>	<b>19,034,484</b>	<b>19,055,936</b>
A.II.1. Share premium	19,172,917	19,500,000
A.II.2. Other capital funds	-764,996	-444,064
A.II.3. Gains or losses from the revaluation of assets and liabilities	626,563	-
<b>A.III. Statutory funds</b>	<b>252,659</b>	<b>66,144</b>
A.III.2. Statutory and other funds	252,659	66,144
<b>A.IV. Retained earnings</b>	<b>-1,546,139</b>	<b>-924,867</b>
A.IV.2. Accumulated losses brought forward	-1,546,139	-924,867
<b>A.V. Profit or loss for the current period (+/-)</b>	<b>-589,794</b>	<b>-621,272</b>
<b>B. Liabilities</b>	<b>12,663,303</b>	<b>9,604,072</b>
<b>B.I. Reserves</b>	<b>130,441</b>	<b>183,656</b>
B.I.4. Other reserves	130,441	183,656
<b>B.II. Long-term liabilities</b>	<b>3,090,339</b>	<b>1,872,788</b>
B.II.5. Long-term prepayments received	534	611
B.II.9. Other payables	3,089,805	1,872,177
<b>B.III. Short-term liabilities</b>	<b>7,477,045</b>	<b>6,746,271</b>
B.III.1. Trade payables	3,842,468	3,215,136
B.III.4. Payables to partners and association members	67,140	-
B.III.5. Payables to employees	1,224,256	1,324,344
B.III.6. Social security and health insurance payables	581,672	643,773
B.III.7. State – tax payables and subsidies	248,383	254,475
B.III.8. Short-term prepayments received	336,615	285,277
B.III.10. Estimated payables	1,175,342	1,022,885
B.III.11. Other payables	1,169	381
<b>B.IV. Bank loans and borrowings</b>	<b>1,965,478</b>	<b>801,357</b>
B.IV.1. Long-term bank loans	1,422,839	721,221
B.IV.2. Short-term bank loans	542,639	80,136
<b>C. I. Other liabilities</b>	<b>198,906</b>	<b>121,112</b>
C.I.1. Accrued expenses	99,480	26,452
C.I.2. Deferred income	99,426	94,660

**Profit and Loss Account for the year ended 31 December 2005 (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
I. Sales of goods	146,494	149,252
A. Costs of goods sold	115,192	120,339
<b>+ Gross margin</b>	<b>31,302</b>	<b>28,913</b>
II. Production	35,173,616	36,722,447
II.1. Sales of own products and services	34,901,280	36,550,121
II.2. Change in internally produced inventory	5,454	-7,126
II.3. Own work capitalised	266,882	179,452
B. Purchased consumables and services	20,155,233	20,187,778
B.1. Consumed material and energy	6,972,911	7,077,155
B.2. Services	13,182,322	13,110,623
<b>+ Added value</b>	<b>15,049,685</b>	<b>16,563,582</b>
C. Staff costs	22,181,684	23,369,010
C.1. Payroll costs	16,204,660	17,012,909
C.2. Remuneration to members of statutory bodies	3,312	3,466
C.3. Social security and health insurance costs	5,341,499	5,732,189
C.4. Social costs	632,213	620,446
D. Taxes and charges	95,618	33,195
E. Depreciation of intangible and tangible fixed assets	2,394,564	2,491,847
III. Sales of fixed assets and material	1,026,747	430,023
III.1. Sales of fixed assets	767,098	134,046
III.2. Sales of material	259,649	295,977
F. Net book value of fixed assets and material sold	606,551	267,695
F.1. Net book value of sold fixed assets	390,462	14,337
F.2. Book value of sold material	216,089	253,358
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	-351,849	-752,849
IV. Other operating income	8,560,021	8,196,667
H. Other operating expenses	516,112	435,011
<b>* Operating profit or loss</b>	<b>-806,227</b>	<b>-653,637</b>
VI. Proceeds from the sale of securities and investments	35,914	-
J. Cost of securities and investments sold	6,240	-
VII. Income from non-current financial assets	3,955	2,593
VII.3. Income from other non-current financial assets	3,955	2,593
X. Interest income	10,745	30,816
N. Interest expenses	20,731	1,386
XI. Other financial income	470,711	297,461
O. Other financial expenses	277,915	389,513
<b>* Financial profit or loss</b>	<b>216,439</b>	<b>-60,029</b>
Q. Income tax on ordinary activities	-	-
<b>** Profit or loss from ordinary activities</b>	<b>-589,788</b>	<b>-713,666</b>
XIII. Extraordinary income	116	152,461
R. Extraordinary expenses	122	60,067
S. Income tax on extraordinary activities	-	-
<b>* Extraordinary profit or loss</b>	<b>-6</b>	<b>92,394</b>
<b>*** Profit or loss for the current period (+/-)</b>	<b>-589,794</b>	<b>-621,272</b>
<b>**** Profit or loss before tax</b>	<b>-589,794</b>	<b>-621,272</b>

## Statement of Changes in Equity for the year ended 31 December 2005 (in CZK thousand)

	Share capital	Share premium	Other capital funds	Valuation gains or losses on the revaluation of assets and liabilities	Statutory and other funds from profit	Accumulated losses brought forward	Profit or loss for the current period	Total equity
<b>Balance at 31 Dec 2003</b>	<b>20,000,000</b>	<b>19,500,000</b>	<b>-452,672</b>	<b>-</b>	<b>193,225</b>	<b>-</b>	<b>-924,867</b>	<b>38,315,686</b>
Distribution of profit or loss	-	-	-	-	-	-924,867	924,867	-
Creation of the social fund – other	-	-	-	-	19,180	-	-	19,180
Use of the social fund	-	-	-	-	-146,261	-	-	-146,261
Profit or loss for the current period	-	-	-	-	-	-	-621,272	-621,272
Other	-	-	8,608	-	-	-	-	8,608
<b>Balance at 31 Dec 2004</b>	<b>20,000,000</b>	<b>19,500,000</b>	<b>-444,064</b>	<b>-</b>	<b>66,144</b>	<b>-924,867</b>	<b>-621,272</b>	<b>37,575,941</b>
Distribution of profit or loss	-	-	-	-	-	-621,272	621,272	-
Creation of the social fund with a charge against share premium	-	-327,083	-	-	327,083	-	-	-
Creation of the social fund – other	-	-	-	-	10,858	-	-	10,858
Use of the social fund	-	-	-	-	-150,930	-	-	-150,930
Revaluation of non-current financial assets	-	-	-	626,563	-	-	-	626,563
Profit or loss for the current period	-	-	-	-	-	-	-589,794	-589,794
Other	-	-	-320,932	-	-496	-	-	-321,428
<b>Balance at 31 Dec 2005</b>	<b>20,000,000</b>	<b>19,172,917</b>	<b>-764,996</b>	<b>626,563</b>	<b>252,659</b>	<b>-1,546,139</b>	<b>-589,794</b>	<b>37,151,210</b>

**Cash Flow Statement for the year ended 31 December 2005 (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
<b>P.</b>		
Opening balance of cash and cash equivalents	2,111,980	2,421,310
<b>Cash flows from ordinary activities</b>		
<b>Z.</b>		
Profit or loss from ordinary activities before tax	-589,788	-713,666
<b>A.1.</b>		
Adjustments for non-cash transactions	1,674,377	1,604,901
A.1.1. Depreciation of fixed assets	2,396,580	2,498,673
A.1.2. Change in provisions and reserves	-351,849	-752,849
A.1.3. Profit/(loss) on the sale of fixed assets	-406,310	-119,709
A.1.5. Interest expense and interest income	9,986	-29,430
A.1.6. Adjustments for other non-cash transactions	25,970	8,216
<b>A.*</b>		
<b>Net operating cash flow before changes in working capital</b>	<b>1,084,589</b>	<b>891,235</b>
<b>A.2.</b>		
Change in working capital	590,253	524,889
A.2.1. Change in operating receivables and other assets	-108,332	147,212
A.2.2. Change in operating payables and other liabilities	792,409	150,614
A.2.3. Change in inventories	-93,824	227,063
<b>A.**</b>		
<b>Net cash flow from operations before tax and extraordinary items</b>	<b>1,674,842</b>	<b>1,416,124</b>
A.3. Interest paid	-20,731	-1,386
A.4. Interest received	10,736	30,816
A.5. Income tax paid from ordinary operations	-	316
A.6. Receipts and expenditures relating to extraordinary activities	-6	92,394
<b>A.***</b>		
<b>Net operating cash flows</b>	<b>1,664,841</b>	<b>1,538,264</b>
<b>Cash flows from investing activities</b>		
<b>B.1.</b>		
Fixed assets expenditures	-4,980,971	-4,160,044
<b>B.2.</b>		
Proceeds from fixed assets sold	803,013	134,008
<b>B.***</b>		
<b>Net investment cash flows</b>	<b>-4,177,958</b>	<b>-4,026,036</b>
<b>Cash flow from financial activities</b>		
<b>C.1.</b>		
Change in payables from financing	2,381,673	2,304,150
<b>C.2.</b>		
Impact of changes in equity	-139,442	-125,708
C.2.3. Other cash contributions made by partners	11,488	20,553
C.2.5. Payments from capital funds	-150,930	-146,261
<b>C.***</b>		
<b>Net financial cash flows</b>	<b>2,242,231</b>	<b>2,178,442</b>
<b>F.</b>		
<b>Net increase or decrease in cash and cash equivalents</b>	<b>-270,886</b>	<b>-309,330</b>
<b>R.</b>		
Closing balance of cash and cash equivalents	1,841,094	2,111,980



**Notes to the Financial Statements for the year ended 31 December 2005****1. GENERAL INFORMATION****1.1. Background Information**

České dráhy, a.s. (hereinafter the "Company") was incorporated following its registration in the Register of Companies on 1 January 2003 as one of the legal successors of the former state organisation České dráhy. Additional details are presented in Note 1.5.

The Company's registered office is located at nábr. L. Svobody 1222/12, Prague 1.

The Company's share capital is CZK 20,000,000,000.

The financial statements have been prepared as of and for the year ended 31 December 2005.

The sole shareholder of the Company is the Czech Republic.

**1.2. Principal Operations**

The Company is principally engaged in operating railway freight and passenger transportation.

Pursuant to applicable legislation, the Company also operates railway routes. The assets comprising the railway routes are in the ownership of the State, not the Company. The right of management of these assets rests with the state organisation Railway Route Administration (Správa železniční dopravní cesty, státní organizace – "SŽDC").

In addition, the Company performs other activities related to the operation of transportation and transportation routes.

**1.3. Organisational Structure**

The Company is organised into sections overseen directly by the Company's Chief Executive Officer (CEO) or Deputy CEOs, being:

- The section of the Company's CEO;
- The section of the Company's Deputy CEO for Finance;
- The section of the Company's Deputy CEO for Freight Transportation;
- The section of the Company's Deputy CEO for Passenger Transportation; and
- The section of the Company's Deputy CEO for Transportation Routes.

**1.4. The Company's Bodies**

The Company's bodies include the General Meeting, Board of Directors and Supervisory Board.

The General Meeting is the supreme body of the Company. The sole shareholder of the Company is the State which exercises the rights of the General Meeting through the Steering Committee.

**The Company's Bodies as of 31 December 2005**

	<b>Position</b>	<b>Name</b>
<b>Steering Committee</b>	Chairman	Antonín Tesařík
	Member	Vojtěch Kocourek
	Member	Pavel Štalmach
	Member	Jiří Volf
	Member	Jaroslav Král
	Member	Jaroslav Soušek
	Member	Jiří Havlíček

	<b>Position</b>	<b>Name</b>
<b>Board of Directors</b>	Chairman	Josef Bazala
	Member	Petr David
	Member	Ivan Foltýn
	Member	Jiří Kolář
	Member	Rodan Šenekl

Mr. Ivan Foltýn was a member of the Board of Directors until 15 February 2006. A new member of the Board of Directors, Mr. Vladimír Filip, was elected by the Supervisory Board on 7 March 2006.

	<b>Position</b>	<b>Name</b>
<b>Supervisory Board</b>	Chairman	Vojtěch Kocourek
	Member	Jaromír Dušek
	Member	František Formánek
	Member	Tomáš Chalánek
	Member	Miroslav Kapoun
	Member	Jiří Kratochvíl
	Member	Karel Korytář
	Member	Kurt Mužík
	Member	František Vašítek

During the year ended 31 December 2005, the changes in the Steering Committee, Board of Directors and the Supervisory Board were as follows:

**Steering Committee:**

Position	Original Member	New Member	Date of the Change
Member	Martin Pecina		16 November 2005
Member		Jiří Havlíček	17 November 2005

**Board of Directors:**

Position	Original Member	New Member	Date of the Change
Member		Petr David	1 March 2005
Member	Jiří Kloutvor		6 May 2005
Chairman, Member	Petr Kousal		3 June 2005
Member		Jiří Kolář	7 June 2005
		Rodan Šenekl	7 June 2005

On 9 May 2005, Mr. Petr Kousal resigned from his position as Chairman of the Board of Directors and Mr. Josef Bazala, who had been a member of the Board of Directors, took this position.

**Supervisory Board:**

Position	Original Member	New Member	Date of the Change
Member		Miroslav Kapoun	1 January 2005

**1.5. Formation and Incorporation of the Company**

On 1 March 2002, Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended (the "Transformation Act") took effect. On the basis of the Transformation Act the Company was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Company and the state organisation Railway Route Administration ("SŽDC") were formed as its legal successors.

SŽDC largely assumed the assets comprising railway routes while the Company largely assumed assets used to operate railway transportation and railway routes. In addition, SŽDC took over the bulk of receivables, payables and loans, while the Company assumed only trade receivables and payables before their due dates and receivables and payables arising from employment arrangements with its employees. Both entities assumed the assets and liabilities at their book values.

In respect of the components of the tangible fixed assets contained in the Establishment Deed where uncertainties or alternative legal opinions on their apportionment between the Company and SŽDC may exist as discussed in the previous paragraph, the Company's Establishment Deed was respected. The assets contained in the Establishment Deed were presented in the opening balance sheet as of 1 January 2003. Management of the Company believes that the above uncertainties or risks of the potential application of alternative legal opinions have been decreasing over time since the incorporation of the Company.



## 2. ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

The financial statements are prepared and presented in accordance with the Accounting Act 563/1991 Coll., as amended and modified by Acts 117/1994 Coll., 227/1997 Coll., 492/2000 Coll. and 353/2001 Coll., 575/2002 Coll., 437/2003 Coll., 257/2004 Coll., 669/2004 Coll., 179/2005 Coll., 495/2005 Coll. and Regulation 500/2002 Coll., which provides implementation guidance on certain provisions of Act 563/1991, as amended, for reporting entities that are businesses maintaining double-entry accounting records, as amended by Regulations 472/2003 Coll. and 397/2005 Coll.; and Czech Accounting Standards for Businesses.

The accounting books and records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis with certain exceptions as described in Note 3.2., the accruals principle, the prudence concept and the going concern assumption. The assets and liabilities assumed by the Company as of 1 January 2003 under Act 77/2002 Coll., as amended (the "Transformation Act") were entered into the Company's books and records at their book values.

These financial statements are presented in thousands of Czech crowns, unless stated otherwise.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1. Tangible and Intangible Fixed Assets

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40,000 (tangible assets except for land and buildings) and CZK 60,000 (intangible assets) on an individual basis. Land and buildings are treated as fixed assets irrespective of their cost valuation.

Intangible fixed assets are valued at acquisition cost. The Company's logo is valued at the price determined by an independent appraiser.

Land acquired prior to 1992 is stated at a value prescribed by the regulation issued by the Finance Ministry ruling at the date of acquisition of assets. Land acquired after 1992 is valued at acquisition cost.

Other tangible fixed assets are stated at acquisition cost. The acquisition cost includes interest on loans provided to fund the acquisition of assets before commencement of their use and other costs attributable to their acquisition.

Tangible and intangible assets produced and generated internally by the Company are stated at the cost of production comprising direct costs and an element of production and/or administrative overheads.

Tangible fixed assets with an acquisition cost greater than CZK 500 but less than CZK 40,000 and intangible fixed assets with an acquisition cost of less than CZK 60,000 are expensed in the period of acquisition and are maintained only in the underlying operational records.

The cost of fixed asset improvements exceeding CZK 40,000 for the period increases the acquisition cost of the related fixed asset.

Replacement costs are used in valuing gifts and assets identified based on physical inventory which were previously not recorded in the accounting books and records.

The acquisition cost of assets acquired subsequent to 1 January 2003 is reduced to reflect the amount of the grant received to finance the acquisition of the asset.

The assets acquired under finance or operating lease agreements (and related liabilities) are not recorded on the balance sheet according to the applicable accounting regulations. Costs incurred in respect of finance and operating leases are charged to the profit and loss account in the period to which they relate on an accruals basis.

Depreciation and amortisation is calculated on a straight line basis over the estimated useful economic lives of the fixed assets. The estimated useful economic lives for the major categories of assets are as follows:

	Number of years
Buildings	30 – 50
Constructions	20 – 50
Locomotives	20 – 25
Passenger coaches	20
Wagons	25 – 33
Machinery and equipment	8 – 20
Intangible assets	3 – 6

At the balance sheet date, the Company recognises provisions against fixed assets on the basis of an assessment of fair values of individual components or groups of assets.

### 3.2. Non-Current Financial Assets

Non-current financial assets principally consist of loans with maturity exceeding one year, equity investments, securities and equity investments available for sale and debt securities with maturity over one year held to maturity.

Upon acquisition, securities and equity investments are carried at cost. Equity investments that were acquired in exchange for the non-cash contribution invested in the company are valued at the carrying value of the non-cash investment.

At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as "Equity investment in subsidiaries".

Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as "Equity investments in associates".

In the current reporting period, the Company revised the valuation policy applied to non-current financial assets at the balance sheet when compared to the previous reporting period, as described in Note 3.19.

Since 1 January 2005:

- Equity investments in subsidiaries and associates have been recorded at the value established using the equity method of accounting. The equity investment is recognised at cost upon acquisition and subsequently revalued at the balance sheet date to reflect the value equivalent to the Company's proportion of a subsidiary/associate's equity; and
- Other non-current financial assets have been valued at cost reduced by provisions, if any. Provisions are recognised against non-current financial assets, the valuation of which temporarily does not correspond to the actual state of affairs.

**3.3. Inventory**

Purchased inventory is valued at acquisition cost which also includes costs attributable to the acquisition, such as transportation costs, customs duties and other related indirect costs.

Inventory produced internally is valued at the internal costs of production including direct costs and an element of production overheads.

Inventory is issued out of stock at costs determined using the weighted arithmetic average method.

Inventory identified during the stock count and previously unrecorded in the accounting records, inventory originating from excess material from the disposal or repairs of fixed assets or any possible donations are stated at replacement cost.

At the balance sheet date, provisions are made against inventory on the basis of stock taking results and as a percentage of the relevant types of inventory which are potentially unusable for the Company's purposes or which may be disposed of at a price lower than cost.

**3.4. Receivables**

Upon origination, receivables are stated at their nominal value. Receivables acquired through assignment are carried at cost.

Receivables due within one year from the balance sheet date are reported as short-term balances. Other receivables are recorded as long-term.

At the balance sheet date, the Company records full provisions against receivables that are past due by greater than six months, receivables registered for recovery under bankruptcy and settlement proceedings and receivables where court proceedings against the relevant debtor have been initiated. Different provisioning levels can be recognised taking into account an individual assessment of receivable balances.

**3.5. Payables**

Upon origination, payables are stated at their nominal value. Payables acquired through assignment are carried at cost.

Payables due within one year from the balance sheet date are reported as short-term balances. Other payables are recorded as long-term.

**3.6. Loans**

Loans are stated at their nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans.

Borrowing costs arising from loans attributable to the acquisition, construction or production of fixed assets incurred until the assets are brought into use are added to the cost of those assets. All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

**3.7. Equity**

On 31 March 2002, the date of the Company's formation, the contribution to the Company involved assets specified in the Establishment Deed, predominantly composed of tangible fixed assets at their original book values. The value of these assets stated in the Establishment Deed as of the Company's formation date is reported as the Company's share capital and share premium.

The change in the value of the assets comprising the contribution between the formation date of the Company and its incorporation date as of 1 January 2003 was reported as a component of other capital funds. As of the incorporation date, pursuant to the Transformation Act, the Company assumed not only the assets that comprised the contribution but also other assets and liabilities. The aggregate net value of these other assets and liabilities was also reported as a component of other capital funds. Given that the aggregate net value of assets and liabilities assumed as of 1 January 2003 was lower than the value of the contribution as of 31 March 2002, the reported balance of other capital funds as of 1 January 2003 and subsequently also as of 31 December 2004 and 31 December 2005 is negative.



Valuation gains and losses from the revaluation of assets and liabilities include the value of revaluation of the non-current financial assets using the equity method of accounting.

The statutory and other funds include the balance of the cultural and social needs fund assumed from the former state organisation Czech Railways reduced to reflect drawings made from 2003 to 2005. In 2005, the Company made drawings from the fund and also increased its balance.

### 3.8. Reserves

Reserves are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred or certain to be incurred, but which are uncertain as to the amount or the date on which they will arise.

Reserves for claims is determined using a reasonable estimate and claims to be provided to customers subsequent to the balance sheet date in respect of transportation services provided prior to the balance sheet date.

A reserve for potential impact of legal disputes.

The reserve for payments made as compensation for job-related accidents and diseases and bonuses to pensions of certain former employees are established pursuant to a statistical analysis of available historical information as equal to the present value of estimated future payments arising from claims that originate before the balance sheet date.

The Company created a reserve for liabilities arising from the Complementary Social Programme, that were not transferred to SŽDC as of the formation date of the Company, up to the level to which these liabilities that arose and were unpaid by 31 December 2003 are not covered by the state subsidy.

The reserve for outstanding vacation days is established on the basis of a reasonable estimate as equal to the estimated future cash outflows (additional wage costs for overtime work) triggered by the use of vacation days that remained outstanding at the year-end.

### 3.9. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the fixed exchange rate announced by the Czech National Bank on the first day of each month. Payments are recorded at the rate prevailing on the payment date.

At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date.

Any resulting foreign exchange rate gains and losses are recorded through the current year's financial expenses or revenues as appropriate.

### 3.10. Finance Leases

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

Advances made for future lease instalments are recorded as "Operating prepayments made".

### 3.11. Income Taxes

#### 3.11.1. Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the tax rate that has been enacted by the balance sheet date.

**3.11.2. Deferred Taxation**

Deferred tax is accounted for using the balance sheet liability method. Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply in the period when the tax liability is settled or the asset realised. The balance sheet liability method focuses on temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

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

**3.12. Impairment**

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

**3.13. Contractual Fines and Default Interest**

In accordance with Czech legislation ruling at the balance sheet date, contractual fines and interest on late payments of receivables and payables are recorded when the receivable originates or the payable is incurred.

**3.14. Financial Derivatives**

At the balance sheet date, the Company did not enter into any financial derivative.

**3.15. State Grants and Settlement of Public Service Commitments from the State Budget and Regional Budgets**

Grants received from public budgets and other sources of funding to finance the acquisition and modernisation of fixed assets are treated as a reduction of the cost of the related assets.

Grants to settle public service commitments cover losses received from the budget of the State and regions, the Complementary Social Programme grant, and the grant in respect of a discounted fare are included in other operating income.

**3.16. Revenue Recognition**

Revenues related to transportation services are recognised in the period in which the services are provided.

The Company operates railway routes comprising assets owned by the State. Expenses and income associated with these activities are recognised in the profit and loss account on an accruals basis.

Other revenues are recognised on an accruals basis, except where accruals cannot be estimated with a reasonable degree of certainty or where accrual accounting for revenues is not required by Czech accounting regulations.

**3.17. Use of Estimates**

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company believes that the estimates and assumptions used will not significantly differ from the actual results and outcomes in the following reporting periods.

**3.18. Extraordinary Expenses and Income**

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly.

**3.19. Changes in Accounting Policies**

In 2005, the Company revised the basis of valuation of investments in subsidiaries and associates to adopt the equity method of accounting under Czech Accounting Standard No. 008. In the previous reporting period, these investments were recognised at acquisition cost reduced by provisions, if any. The reason for the revised treatment related to the rapid growth of investments in these entities in 2005; the acquisition costs of the equity investments amounted to CZK 1,336,359 thousand and CZK 565,387 thousand as of 31 December 2005 and 2004, respectively. The tables in Notes 4.3.1. and 4.3.2. present the comparative information relating to the reported data of these investments as of 31 December 2004 using the method adopted in 2004 and the equity method of accounting applied in 2005.

In addition to the change in the reporting of non-current financial assets referred to above, the Company did not use any accounting methods different from those adopted in the previous reporting period.

**3.20. Cash Flow Statement**

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows (in CZK thousand):

	31 Dec 2005	31 Dec 2004
Cash on hand and cash in transit	83,768	65,398
Cash at bank	1,755,218	2,046,582
Short-term securities and investments	2,108	–
<b>Total cash and cash equivalents</b>	<b>1,841,094</b>	<b>2,111,980</b>

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

#### 4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

##### 4.1. Intangible Fixed Assets (in CZK thousand)

Acquisition cost	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Research and development	110,629	597	7,927	103,299	0	702	102,597
Software	747,914	27,468	8,075	767,307	5,170	85,362	687,115
Valuable rights	1,730,303	0	1	1,730,302	0	943	1,729,359
Other assets	942	0	0	942	0	0	942
Intangible assets under construction	52,705	173,411	109,481	116,635	242,059	5,170	353,524
<b>Total</b>	<b>2,642,493</b>	<b>201,476</b>	<b>125,484</b>	<b>2,718,485</b>	<b>247,229</b>	<b>92,177</b>	<b>2,873,537</b>
Accumulated amortisation	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Research and development	110,191	281	7,927	102,545	52	0	102,597
Software	695,082	38,041	7,154	725,969	31,564	85,362	672,171
Valuable rights	1,729,844	401	1	1,730,244	59	944	1,729,359
Other assets	942	0	0	942	0	0	942
Intangible assets under construction	0	0	0	0	0	0	0
<b>Total</b>	<b>2,536,059</b>	<b>38,723</b>	<b>15,082</b>	<b>2,559,700</b>	<b>31,675</b>	<b>86,306</b>	<b>2,505,069</b>
Net book value	Balance at 1 Jan 2004		Balance at 31 Dec 2004		Balance at 31 Dec 2005		
Research and development	438		754		0		
Software	52,832		41,338		14,944		
Valuable rights	459		58		0		
Other assets	0		0		0		
Intangible assets under construction	52,705		116,635		353,524		
<b>Total</b>	<b>106,434</b>		<b>158,785</b>		<b>368,468</b>		

Intangible fixed assets specifically comprise the Company's logo which was valued at CZK 1,729 million by an independent appraiser in 1997. The Company recognises accumulated amortisation in respect of the logo in the same amount.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure involved in developing a SAP module, UNIPOK and ISOPT.

## 4.2. Tangible Fixed Assets (in CZK thousand)

Acquisition cost	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Land	8,030,696	14,721	22,718	8,022,699	68,937	659,258	7,432,378
Buildings	20,634,832	599,090	99,322	21,134,600	791,110	759,850	21,165,860
Individual movable assets	50,833,876	1,521,644	1,355,551	50,999,969	1,941,952	2,350,871	50,591,050
– Machinery, equipment, and furniture and fixture	7,268,469	213,676	626,797	6,855,348	168,469	1,196,143	5,827,674
– Vehicles	43,237,641	1,307,080	721,927	43,822,794	1,772,269	1,129,472	44,465,591
– Other	327,766	888	6,827	321,827	1,214	25,256	297,785
Other assets	4,426	70	146	4,350	192	0	4,542
Tangible assets under construction	1,093,190	1,967,324	1,002,457	2,058,057	5,422,208	2,802,191	4,678,074
Prepayments	1,339,146	1,296,970	195,606	2,440,510	1,180,599	1,926,272	1,694,837
<b>Total</b>	<b>81,936,166</b>	<b>5,399,819</b>	<b>2,675,800</b>	<b>84,660,185</b>	<b>9,404,998</b>	<b>8,498,442</b>	<b>85,566,741</b>
Accumulated depreciation	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Buildings	11,242,376	432,612	83,016	11,591,971	841,110	755,850	11,677,231
Individual movable assets	33,715,057	2,032,853	1,336,471	34,411,439	1,930,887	2,136,257	34,206,069
– Machinery, equipment, and furniture and fixture	5,722,193	307,414	615,214	5,414,393	282,669	1,068,884	4,628,178
– Vehicles	27,800,214	1,725,439	721,257	28,804,396	1,562,960	991,261	29,376,095
– Other	192,650	0	0	192,650	85,258	76,112	201,796
Other assets	409	0	7	402	6	14	394
Tangible assets under construction	0	0	0	0	–	–	0
Prepayments	0	0	0	0	–	–	0
<b>Total</b>	<b>44,957,842</b>	<b>2,465,465</b>	<b>1,419,494</b>	<b>46,003,812</b>	<b>2,772,003</b>	<b>2,892,121</b>	<b>45,883,694</b>
Provisions	Balance at 1 Jan 2004	Additions	Disposals	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005
Land	4,986	7,420	4,986	7,420	4,526	7,420	4,526
Buildings	72,056	134,225	72,056	134,225	82,756	134,225	82,756
Individual movable assets	1,166,192	783,117	1,166,192	783,117	533,283	783,117	533,283
– Machinery, equipment, and furniture and fixture	9,075	3,304	9,075	3,304	5,983	3,304	5,983
– Vehicles	1,157,117	779,813	1,157,117	779,813	527,300	779,813	527,300
– Other	0	0	0	0	0	0	0
Other assets	64	8	64	8	0	0	8
Tangible assets under construction	6,954	0	6,954	0	0	0	0
Prepayments	0	0	0	0	0	0	0
<b>Total</b>	<b>1,250,252</b>	<b>924,770</b>	<b>1,250,252</b>	<b>924,770</b>	<b>620,565</b>	<b>924,762</b>	<b>620,573</b>

Net book value	Balance at 1 Jan 2004	Balance at 31 Dec 2004	Balance at 31 Dec 2005
Land	8,025,710	8,015,279	7,427,852
Buildings	9,320,401	9,408,404	9,405,873
Individual movable assets	15,952,628	15,805,413	15,851,698
– Machinery, equipment, and furniture and fixture	1,537,201	1,437,651	1,193,513
– Vehicles	14,280,311	14,238,585	14,562,196
– Other	135,116	129,177	95,989
Other assets	3,953	3,940	4,140
Tangible assets under construction	1,086,236	2,058,057	4,678,074
Prepayments	1,339,146	2,440,510	1,694,837
<b>Total</b>	<b>35,728,074</b>	<b>37,731,603</b>	<b>39,062,474</b>

Land and buildings principally consist of immovable assets – train stations and depots for rail vehicles (including the peripheral area around train stations and depots) and other immovable assets used to operate freight and passenger railway transportation and other activities of the Company. Assets comprising the railway routes owned by the State are not included in land and buildings.

Vehicles principally comprise rail vehicles (locomotives, passenger coaches, wagons and other rail vehicles) used in the course of providing freight and passenger transportation services. On the basis of stock count procedures and analyses, the Company has identified asset components, specifically rail vehicles, where there is significant uncertainty regarding their future utilisation. These assets have been provided for as equal to the difference between the net book value and estimated fair value (typically the net proceeds of the sale or disposal of the relevant asset). The level of provisioning for tangible fixed assets was reduced as a result of the updated estimate of the future utilisation and fair value of assets, namely rail vehicles.

Tangible assets under construction principally include the amount of CZK 3,598,088 thousand comprising the costs of acquiring seven sets of rail vehicles with moving bodies ("Pendolino"). During 2004 and 2005, the taken-over sets of rail vehicles were put into test operation. Putting these sets of rail vehicles into operation and the commencement of their depreciation depends on the fulfilment of all of the contractual requirements. The most significant item of prepayments is an amount of CZK 991,362 thousand, composed of the acquisition costs of the Ampz and Bmz passenger wagons (first and second class wagons).

The most significant disposals of tangible assets included the disposal of assets invested in newly founded subsidiaries Traťová strojná společnost, a.s., Výzkumný Ústav Železniční, a.s. and ČD - Telematika a.s. as disclosed in Note 4.3.1. where the net book value of the invested fixed assets was CZK 529,085 thousand. Significant disposals of assets were also triggered by the refinements being made to the transformation of the former České dráhy, s.o. with an equity impact as described in Note 4.7.

Other disposals included disposals of buildings and land at an acquisition cost of CZK 291,995 thousand due to the sale of these assets to SŽDC as part of the settlement of the property relations. Further disposals relate to the disposals of locomotives at an acquisition cost of CZK 277,032 thousand, other rail vehicles at an acquisition cost of CZK 358,984 thousand. The significant disposal in prepayments for tangible fixed assets and the increase of fixed assets under construction is due to the recognition of the portion of acquired rail vehicles with moving bodies ("Pendolino") in compliance with the contract. As of 31 December 2004, the prepayments amounted to CZK 1,143,540 thousand.

The most significant addition to tangible fixed assets was the purchase of train set no. 471 (pantograph) in the amount of CZK 615,563 thousand.



**4.2.1. Pledged Assets**

The Company holds assets that were pledged as security – train sets of the 471 series at an acquisition cost of CZK 606,780 thousand.

**4.2.2. Tangible Fixed Assets not Reported on the Face of the Balance Sheet**

The aggregate amount of tangible fixed assets not reported on the face of the balance sheet as of 31 December 2005 was CZK 1,435 million (2004: CZK 1,798 million). These include items under CZK 10 thousand that are recorded only in the underlying operating records. These items are recognised in expenses at the moment of acquisition in accordance with applicable legislation.

**4.2.3. Investment Grants**

The most significant portion of received investment grants includes grants from the State Fund of Transport Infrastructure that amounted to CZK 443,864 thousand and CZK 963,788 thousand in the years ended 31 December 2005 and 2004, respectively.

**4.2.4. Assets Held under Finance Leases (in CZK thousand)**

Description	Date of inception	Term in months	Total lease value	Payments made in 2005	Due in 2006	Due in following years
AU analyser	June 2003	36	2,095	1,163	698	234
Freight rail vehicles	October 2005	96	145,613	4,397	18,202	123,014
<b>Total</b>			<b>147,708</b>	<b>5,560</b>	<b>18,900</b>	<b>123,248</b>

Assets held under finance leases are not included in the assets reported on the balance sheet. The above figures are net of VAT and include a commission to the leasing company.

**4.3. Non-Current Financial Assets****4.3.1. Equity Investments in Subsidiaries**

As of 31 December 2005 (in CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2005	Valuation at 31 Dec 2005
RAILREKLAM, spol. s r.o.	Prague 1, Klimentská 36/1652	29,250	6,761	100%	36,011	4,239	36,011
RailReal, a.s.	Prague 3, Olšanská 1a	660	442	66%	1,669	-439	1,102
ČD Reality a.s.	Prague 3 Prvního pluku 2a/81	1,020	-145	51%	1,715	47	875
ČD Generalvertretung GmbH	Frankfurt am/M, Germany	1,592	-142	100%	*)	2,919	1,450
Dopravní vzdělávací institut, a.s.	Prague 1, Hybernská 1014/13	3,200	932	100%	4,132	932	4,132
Smíchov Station Development, a.s.	Prague 1, Revoluční 655/1	1,020	-302	51%	1,267	-733	718
ČD travel, s.r.o.	Prague 1, Hybernská 1034	7,500	-332	100%	7,168	-332	7,168
Traťová strojná společnost, a.s.	Pardubice, Hlaváčova 206	287,483	97,618	100%	385,101	20,364	385,101
Výzkumný Ústav Železniční, a.s.	Prague 4, Novodvorská 1698	329,300	43,494	100%	370,451	4,941	372,794
ČD - Telematika a.s.	Prague 3, Pernerova 2a/2819	673,152	474,589	51%	2,250,475	18,810	1,147,741
<b>Total</b>		<b>1,334,177</b>	<b>622,915</b>				<b>1,957,092</b>

\*) The figure is not available.

As of 31 December 2004 (in CZK thousand)

Business name of the entity	Registered office	Cost	Provision	Ownership percentage	Equity	Profit or loss for 2004	Valuation at 31 Dec 2004	Valuation at 31 Dec 2004 using the method of 2005 **)
RAILREKLAM, spol. s r.o.	Prague 1, Klimentská 36/1652	29,250	0	100%	34,745	6,522	29,250	34,745
RailReal, a.s.	Prague 3, Olšanská 1a	660	0	66%	2,108	301	660	1,391
ČD Reality a.s.	Prague 3 Prvního pluku 2a/81	1,020	169	51%	1,668	-332	851	851
ČD Generalvertretung GmbH	Frankfurt am/M, Germany	1,592	0	100%	*)	*)	1,592	*)
<b>Total</b>		<b>32,522</b>	<b>169</b>				<b>32,353</b>	<b>36,987</b>

\*) The figure is not available.

\*\*) Due to the change in the method of valuation of non-current financial assets in 2005, as described in Note 3.19. the table also presents the comparative information as of 31 December 2004 using the equity method of accounting.

The equity investment in RAILREKLAM, spol. s r.o. was made on the basis of a Founding Deed dated 21 February 1991. On the basis of an agreement dated 28 December 2000, a 50 percent equity investment held by Österreichisches Verkehrsbüro AG was transferred to the Company for CZK 29 million. As such, the Company became the sole owner of RAILREKLAM, spol. s r.o. which is engaged in advertising activities specifically related to railroad transportation.

RailReal a.s. was incorporated following its registration in the Register of Companies on 6 December 2000. The Company acquired the shares of RailReal a.s. on the basis of deeds of donation dated 20 December 2000. The entity is principally engaged in undertaking projection and engineering activities in regard to investment construction.

ČD reality a.s. is engaged in investment construction engineering activities, preparation and implementation of revitalisation projects and other related activities.

ČD Generalvertretung GmbH engages in the representation of the Company in its business and other interests abroad, direct setting of prices for services, conclusion and mediation of contracts for freight transport fees, and representation in other business areas and areas of interest.

In the year ended 31 December 2005, the number of subsidiaries increased by six to a total of ten companies as compared to the year ended 31 December 2004. New entities are as follows:

- Traťová strojní společnost, a.s., registered in the Register of Companies on 1 January 2005, principal activities: construction, alterations and removal of structures. The company was formed by the investment of České dráhy, a.s. On 15 December 2005, the Contract for the Investment of ŽS Brno in Traťová strojní společnost was entered into. The investment decreased the shareholding of České dráhy from 100 percent to 51 percent. The registration in the Register of Companies was made on 15 February 2006.
- Výzkumný Ústav Železniční, a.s., registered in the Register of Companies on 1 July 2005, principal activities: research and development of rail vehicles and infrastructure equipment. The company was formed by an investment of part of the business of České dráhy, a.s.
- Smíchov Station Development, a.s., registered in the Register of Companies on 1 June 2005, principal activities: lease of real estate, apartments and non-residential premises.
- ČD travel, s.r.o., registered in the Register of Companies on 1 August 2005, principal activities: travel agency.
- Dopravní vzdělávací institut, a.s., registered in the Register of Companies on 21 September 2005, principal activities: organisation of courses, educational events and training activities.
- In addition to the newly formed companies, the Company increased its investment in ČD - Telematika a.s. from 40 percent to 51 percent; registered in the Register of Companies on 4 May 2005; the principal activity of ČD - Telematika: provision of telecommunication services, software and advisory services.

**4.3.2. Equity Investments in Associates**  
As of 31 December 2005 (in CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2005	Valuation at 31 Dec 2005
CR-City a.s.	Prague 3, Olšanská 1a	680	-566	34%	336	-263	114
BOHEMIAKOMBI s.r.o.	Prague 1, Opletalova 6	822	4,860	20%	28,408	-1,859	5,682
Masaryk Station Development a.s.	Prague 3, Olšanská 1a	680	-647	34%	99	-1,713	33
<b>Total</b>		<b>2,182</b>	<b>3,647</b>				<b>5,829</b>

As of 31 December 2004 (in CZK thousand)

Business name of the entity	Registered office	Cost	Provision	Ownership percentage	Equity	Profit or loss for 2004	Valuation at 31 Dec 2004	Valuation at 31 Dec 2004 using the method of 2005 *)
CD Centrum a.s.	Brno, Heršpická 813/5	2,940	1,272	49%	3,405	-1,812	1,668	1,668
CR-City a.s.	Prague 3, Olšanská 1a	680	680	34%	-7,846	-8,897	0	-2,668
BOHEMIAKOMBI s.r.o.	Prague 1, Opletalova 6	822	0	20%	30,267	-175	822	6,053
ČD - Telematika a.s. *)	Prague 3, Pernerova 2a/2819	527,743	0	40%	1,481,864	1,225	527,743	592,746
Masaryk Station Development a.s.	Prague 3, Olšanská 1a	680	0	34%	1,812	-188	680	616
<b>Total</b>		<b>532,865</b>	<b>1,952</b>				<b>530,913</b>	<b>598,415</b>

\*) Due to the change in the method of valuation of non-current financial assets in 2005, as described in Note 3.19. the table also presents the comparative information as of 31 December 2004 using the equity method of accounting.

In 2005, the number of associates was decreased by two companies. Due to the increase of the investment in ČD - Telematika a.s. to 51 percent, this company was included among subsidiaries companies. The Company sold its investment in ČD CENTRUM a.s. to MORÁVKA CENTRUM, a.s. on the basis of the Securities Purchase Contract of 8 June 2005.

## 4.3.3. Other Equity Investments and Securities (in CZK thousand)

Type of security and investment	Cost	Provision	Valuation at 31 Dec 2005	Valuation at 31 Dec 2004
PraK, a.s.	850	0	850	850
STROJEXPORT a.s.	2,300	0	2,300	2,300
Hit Rail B.V.	4,017	0	4,017	4,017
EUROFIMA	262,873	0	262,873	262,873
INTERCONTAINER-INTERFRIGO, o.s.	5,189	0	5,189	5,189
INTERNATIONALE SPEDITION Děčín, a.s.	400	392	8	0
<b>Total</b>	<b>275,629</b>	<b>392</b>	<b>275,237</b>	<b>275,229</b>

In 2004, the Company increased its shareholding in EUROFIMA through the purchase of 1,300 shares at a cost of CHF 6,518 thousand. The Company's holding of EUROFIMA's share capital thereby increased to 1 percent. EUROFIMA is a European company engaged in funding rail vehicles and is based in Basle (Switzerland). EUROFIMA is tasked with obtaining, under the best possible conditions, rail vehicles for railway administration organisations that are its shareholders. The Czech Republic signed the Company Formation Treaty and Amendment Protocol on Formation on 26 July 2002.

In 2004, the Company increased its investment in INTERCONTAINER-INTERFRIGO o.s. by EUR 55 thousand.

## 4.4. Inventory (in CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Spare parts for machinery and equipment	377,908	365,352
Spare parts and other components for rail vehicles and locomotives	500,505	465,239
Other spare parts and other minor components	234,083	284,511
Fuels and other oil products	35,875	95,622
Switches, turntables, traverse tables and components for rail superstructures	168,296	148,574
Other	636,501	519,984
<b>Total cost</b>	<b>1,953,168</b>	<b>1,879,282</b>
Provisions	53,498	102,427
<b>Total net book value</b>	<b>1,899,670</b>	<b>1,776,855</b>

The Company records provisions against redundant inventory components and/or inventory that carries the risk of its net realisable value being lower than cost.

The decrease in provisioning arises from the fact that during 2005 the Company undertook a detailed assessment of the future utilisation of inventories, specifically those that were provided for in the prior period due to existing uncertainties. Based upon this assessment, a portion of the material was consumed, disposed of or sold and a portion was newly earmarked as assets required for use in the long-term.

**4.5. Short-Term Receivables****4.5.1. Trade Receivables (in CZK thousand)**

Year	Category	Before due date	Past due (in days)					Total	Total
			0 – 90	91 – 180	181 – 365	366 – 730	731 and greater		
2005	Gross	2,544,110	216,789	229,798	18,965	24,008	13,668	503,228	3,047,338
	Provisions	0	0	57,112	18,965	24,008	13,668	113,753	113,753
	Net	2,544,110	216,789	172,686	0	0	0	389,475	2,933,585
2004	Gross	2,634,678	193,602	34,323	24,686	51,913	628	305,153	2,939,831
	Provisions	0	6	110	9,846	51,913	628	62,503	62,503
	Net	2,634,678	193,596	34,213	14,839	0	0	242,650	2,877,328

**4.5.2. Intercompany Receivables (in CZK thousand)**

Entity	Balance at 31 Dec 2005	Balance at 31 Dec 2004
<b>Short-term receivables</b>		
Trade payables		
ČD - Telematika a.s.	9,992	0
Traťová strojní společnost, a.s.	6,806	0
Výzkumný Ústav Železniční, a.s.	2,596	0
Total short-term intercompany receivables	19,394	0
Other than group receivables	3,027,944	2,877,328
<b>Total short-term trade receivables</b>	<b>3,047,338</b>	<b>2,877,328</b>

**4.5.3. Tax Receivables**

As of 31 December 2005 and 2004, tax receivables amounted to CZK 14,222 thousand and CZK 130,664 thousand, respectively, and largely consisted of receivables arising from VAT.

**4.5.4. Prepayments Made**

As of 31 December 2005 and 2004, short-term prepayments made amounted to CZK 233,498 thousand and CZK 229,850 thousand, respectively, and largely consisted of prepayments made for the supply of services (electricity, heat, etc).

**4.6. Estimated Receivables (in CZK thousand)**

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Cross-border rentals for passenger coaches	552,308	591,755
Cross-border rentals for freight wagons	224,000	180,708
Income from international transportation	432,981	456,519
Other	48,690	134,444
<b>Total estimated receivables</b>	<b>1,257,979</b>	<b>1,363,426</b>

Cross-border rentals are billed retroactively for two months (freight transportation) and 12 months (passenger transportation).

Income from international transportation represents an amount due from the transportation services provided as of 31 December 2005 which were not billed to the foreign railway organisations and an amount arising from unsettled operating output in border regions in respect of the neighbouring railway organisations. This receivable is typically settled with a delay of one or more months.

**4.7. Equity**

The Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

Information about the substance of individual equity components is presented in Note 3.7. to the financial statements.

The revaluation of the non-current financial assets using the equity method of accounting amounted to CZK 626,563 thousand.

The balance of the social fund as of 31 December 2004 was CZK 66,144 thousand. As of 1 January 2005, the balance of the social fund was CZK 65,648 thousand which is by 496 thousand lower – part of the business invested in Traťová strojná společnost, a.s.

The increase in statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 327,083 thousand charged against the share premium. Until 31 December 2005, CZK 150,930 thousand was drawn from the social fund.

The sole shareholder decided to transfer the loss of CZK 621,272 thousand incurred in the previous reporting period to accumulated losses.

The most significant amount in the change of other capital funds was the impact of the transfer of real estate between the Company and SŽDC in the aggregate net amount of CZK 385 million. Due to the refinements of the transformation of the former state organisation České dráhy, certain real estate that was previously recorded by SŽDC was recognised as the assets of the Company and, concurrently, certain real estate was removed from the accounting books of the Company and assigned to SŽDC. These predominantly include land plots divided by plat maps at the beginning and the end of railway stations. Management of the Company believes that further changes, if any, that may occur in the future for the reasons referred to above are immaterial.

The change in other capital funds was additionally due to the recognition of gifts, subsidies and unrecognised fixed assets identified during the stock taking of the assets of the Company.

**4.8. Reserves (in CZK thousand)**

	Balance at 1 Jan 2004	Charge	Use	Balance at 31 Dec 2004	Charge	Use	Balance at 31 Dec 2005
Reserve for discounts and claims	26,458	35,197	26,458	35,197	29,437	35,197	29,437
Reserve for rents	18,345	15,477	18,345	15,477	16,271	15,477	16,271
Reserve for legal disputes	0	0	0	0	9,290	0	9,290
Reserve for repairs of assets	4,743	0	4,743	0	0	0	0
Reserve for the Complementary Social Programme	52,618	0	52,618	0	0	0	0
Reserve for outstanding vacation days	301,257	0	168,275	132,982	75,443	132,982	75,443
<b>Total reserves</b>	<b>403,421</b>	<b>50,674</b>	<b>270,439</b>	<b>183,656</b>	<b>130,441</b>	<b>183,656</b>	<b>130,441</b>

The significant reduction of the reserve for outstanding vacation days in 2005 is due to the increased use of vacation days by employees of the Company and the reduction of the number of employees.

All of the reserves charged in the year ended 31 December 2005 are non-tax deductible.



**4.9. Long-Term Payables (in CZK thousand)**

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Payable to EUROFIMA	3,045,467	1,827,839
Payable to the City of Karlovy Vary	44,338	44,000
Long-term received prepayments	534	611
Other	0	338
<b>Total long-term payables</b>	<b>3,090,339</b>	<b>1,872,788</b>

In 2004, the Company received a long-term loan from EUROFIMA to finance the purchase of rail vehicles. This loan was increased in the year ended 31 December 2005. This loan is collateralised by a state guarantee. A portion of the long-term payables represents the Company's payable to the City of Karlovy Vary in connection with the construction of the bus and train station in Karlovy Vary.

The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2005 and 2004 was CZK 19,371 thousand and CZK 8,099 thousand, respectively.

**4.10. Short-Term Payables****4.10.1. Trade Payables (in CZK thousand)**

Year	Category	Before due date	Past due (in days)					Total	Total
			0 – 90	91 – 180	181 – 365	366 – 730	731 and greater		
2005	Short-term	3,488,279	320,251	15,385	5,633	12,623	297	354,189	<b>3,842,468</b>
2004	Short-term	2,927,704	274,401	10,247	2,748	-238	274	287,432	<b>3,215,136</b>

**4.10.2. Intercompany Payables (in CZK thousand)**

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
<b>Short-term payables</b>		
Trade payables		
ČD - Telematika a.s.	218,523	0
Traťová strojní společnost, a.s.	21,411	0
Výzkumný Ústav Železniční, a.s.	1,487	0
Total short-term intercompany payables	241,421	0
Other than intercompany payables	3,601,047	3,215,136
<b>Total short-term trade payables</b>	<b>3,842,468</b>	<b>3,215,136</b>

The Company records a payable as of 31 December 2005 in the amount of CZK 67,140 thousand within "Payables to partners and members of associations" as disclosed in Note 4.10.3.

**4.10.3. Payables from Outstanding Contributions**

As of 31 December 2005, the Company records in the balance sheet line item "Payables to partners" an amount payable of CZK 67,140 thousand arising from an outstanding part of the contribution to ČD - Telematika a.s.

**4.10.4. Tax Payables and Subsidies**

As of 31 December 2005, tax payables were largely composed of personal income taxation deducted from the gross wages of the Company's employees amounting to CZK 173,196 thousand (2004: CZK 179,758 thousand) and an outstanding amount of the investment subsidy received by the Company from municipalities of CZK 43,642 thousand (2004: CZK 39,967 thousand).

The Company records no amounts payable arising from social security contributions, contributions to the state employment policy, public health insurance payables or tax arrears.

**4.10.5. Prepayments Received**

As of 31 December 2005, short-term prepayments received amounted to CZK 336,615 thousand (2004: CZK 285,277 thousand) and were largely composed of rental prepayments.

**4.11. Estimated Payables (in CZK thousand)**

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Rental for passenger coaches of foreign companies in the Czech Republic	514,825	472,081
Rental for freight wagons of foreign companies in the Czech Republic	105,000	109,454
Costs of international transportation	190,483	290,286
Other	365,034	151,064
<b>Total estimated payables</b>	<b>1,175,342</b>	<b>1,022,885</b>

Rentals for coaches and wagons of foreign companies in the Czech Republic are billed retroactively for two months (freight transportation) and 12 months (passenger transportation).

Costs of international transportation represent an amount payable arising from unsettled operating output in border regions in respect of the neighbouring railway organisations. This payable is typically settled with a delay of one or more months.

**4.12. Bank Loans****Long-term Bank Loans (in CZK thousand)**

Bank	Currency	Balance at 31 Dec 2005	Balance at 31 Dec 2004	Interest rate	Collateral form
ČSOB	EUR	1,422,839	721,221	3M EURIBOR + 0.5	State guarantee
<b>Total</b>		<b>1,422,839</b>	<b>721,221</b>		

The Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium are Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The aggregate amount of the loan facility is EUR 92,065 thousand. The loan has been provided to finance the renovation of the Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. As of 31 December 2005, EUR 61,376 thousand was drawn (a one-off draw-down on 25 November 2005). As of 31 December 2004, EUR 26,305 thousand was drawn (3 draw-downs of EUR 8,768 thousand). The Company began repaying the loan principal in 2005 (repayments on 25 May 2005 and 25 November 2005, each of EUR 1,315 thousand). The final maturity date of the loan is 25 November 2014.

The portion of bank loans maturing after one year from the balance sheet date is included in long-term loans.

**Short-Term Bank Loans**

The portion of bank loans maturing within one year from the balance sheet date is included in short-term loans. As of 31 December 2005, the portion of bank loans maturing within one year from the balance sheet amounts to CZK 281,088 thousand (31 December 2004: CZK 80,136 thousand). The Company records an overdraft loan amounting to CZK 261,551 thousand as of 31 December 2005 as a short-term bank loan.

The amount of capitalised interest on the loan from ČSOB for the year ended 31 December 2005 was CZK 26,838 thousand (2004: CZK 25,824 thousand).

**4.13. Income Taxes****4.13.1. Tax Payable**

The Company has reported a tax loss since its incorporation on 1 January 2003. The tax loss amounted to CZK 2,726,682 thousand, CZK 2,894,691 thousand and CZK 1,294,660 thousand for the years ended 31 December 2005, 2004 and 2003, respectively.

**4.13.2. Deferred Taxation**

The Company has determined a deferred tax asset as follows (in CZK thousand):

	Balance at 31 Dec 2005	Balance at 31 Dec 2004
Tangible and intangible fixed assets	-959,288	-423,873
Non-current financial assets	0	96
Trade receivables	23,352	10,913
Inventory	12,839	24,582
Reserves	31,306	44,078
Unpaid penalty	23,544	0
Accumulated tax loss	1,657,745	1,005,444
<b>Total deferred tax asset</b>	<b>789,497</b>	<b>661,240</b>

The Company has decided not to recognise the deferred tax asset on the grounds of prudence and due to the uncertainty regarding the availability of future taxable profits.

**4.14. Accrued Expenses and Deferred Income**

Accrued expenses predominantly comprise the estimated additional payment of contractual wages to the Company's management for the year ended 31 December 2005.

Deferred income predominantly includes rental income from discount cards and three gas stations leased to OMV and ARAL, which was prepaid for 20 years.



## 4.15. Income from the Sale of the Company's Products and Services (in CZK thousand)

	Year ended 31 Dec 2005			Year ended 31 Dec 2004		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income from freight transportation	5,575,471	10,903,974	16,479,445	5,676,589	12,002,514	17,679,103
Income from passenger transportation	3,918,749	1,519,423	5,438,172	3,743,674	1,557,201	5,300,875
Income from other transportation	20,346	0	20,346	19,426	0	19,426
Income from securing railway routes	11,243,979	0	11,243,979	11,374,912	0	11,374,912
Income from securing modernisation and development railway routes	34,817	0	34,817	40,174	0	40,174
Income from other services	1,684,521	0	1,684,521	2,135,631	0	2,135,631
<b>Income from the sale of the Company's products and services</b>	<b>22,477,883</b>	<b>12,423,397</b>	<b>34,901,280</b>	<b>22,990,406</b>	<b>13,559,715</b>	<b>36,550,121</b>

Cross-border sales include the share of the Company of income from the international transportation and sales from the cross-border rent of coaches and wagons.

Income from securing railway routes represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 4,488,040 thousand (2004: CZK 4,919,217 thousand) and operability of CZK 6,755,939 thousand (2004: CZK 6,455,695 thousand). A description of the transactions between the Company and SŽDC is provided in Note 7.2.

Income from other services includes proceeds from the other activities of the Company, specifically income from the lease of land, buildings and non-residential premises and apartments, income for the commercial-technical services, income from heat and electricity distribution and income from health insurers.

## 4.16. Related Parties Transactions

## 4.16.1. Income Generated with Related Parties 2005 (in CZK thousand)

Entity	Relation to the Company	Products	Services	Other income	Total
ČD - Telematika a.s.	Subsidiary	0	27,147	1,863	29,010
Traťová strojní společnost, a.s.	Subsidiary	26,750	24,286	473	51,509
Výzkumný Ústav Železniční, a.s.	Subsidiary	0	4,025	123	4,148
<b>Total</b>		<b>26,750</b>	<b>55,458</b>	<b>2,459</b>	<b>84,667</b>

No income with related parties was generated in the year ended 31 December 2004.

4.16.2. Purchases from Related Parties  
2005 (in CZK thousand)

Entity	Relation to the Company	Purchase of material	Services	Other expenses	Total
ČD - Telematika a.s.	Subsidiary	17,238	569,059	0	586,297
Traťová strojní společnost, a.s.	Subsidiary	386	55,635	0	56,021
Výzkumný Ústav Železniční, a.s.	Subsidiary	0	4,245	0	4,245
<b>Total</b>		<b>17,624</b>	<b>528,939</b>	<b>0</b>	<b>646,563</b>

No purchases from related parties were effected in the year ended 31 December 2004.

4.16.3. Purchases and Sales of Fixed Assets and Non-Current Financial Assets with Related Parties

Purchases of tangible and intangible fixed assets and non-current financial assets from related parties were immaterial in the year ended 31 December 2005. In the year ended 31 December 2004, no sales of tangible and intangible fixed assets and non-current financial assets to related parties were effected.

Purchases in 2005 (in CZK thousand)

Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a.s.	Subsidiary	159,981	11,919
Traťová strojní společnost, a.s.	Subsidiary	0	8,901
Výzkumný Ústav Železniční, a.s.	Subsidiary	0	490
<b>Total</b>		<b>159,981</b>	<b>21,310</b>

No purchases of tangible and intangible fixed assets and non-current financial assets from related parties were effected in the year ended 31 December 2004.

4.17. Consumed Purchases (in CZK thousand)

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Consumed material	2,216,610	2,632,706
Consumed energy	2,617,442	2,500,338
Consumption of fuels	2,138,859	1,944,111
<b>Total consumed purchases</b>	<b>6,972,911</b>	<b>7,077,155</b>



## 4.18. Services (in CZK thousand)

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Repairs and maintenance	3,722,721	3,958,375
Travel expenses	256,816	289,631
Telecommunications, data and postal services	537,844	161,038
Rental	79,901	98,952
Use of railway routes, management of operations	5,695,136	5,810,085
Rent for railway coaches and wagons	1,145,050	1,196,308
Freight charges	247,254	216,116
Services of dining and sleeping carriages	138,016	126,214
Services associated with the use of buildings	223,604	230,600
Cleaning and shifting of coaches and wagons	133,668	118,194
Other services	1,002,312	905,110
<b>Total</b>	<b>13,182,322</b>	<b>13,110,623</b>

The significant increase in the costs of telecommunications and data services relates to the transfer of the part of the Company's business providing these services to the subsidiary ČD - Telematika in 2005, as described in Note 4.3.1. Other services predominantly include expenses related to the environment, education, low value assets, and similar charges.

## 4.19. Change in Reserves and Provisions Relating to Operating Activities (in CZK thousand)

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Change in reserves	-53,215	-219,765
Change in provisions against receivables	57,014	7,136
Change in provisions against tangible fixed assets	-304,197	-325,481
Change in provisions against non-current financial assets	-2,521	2,121
Change in provisions against inventory	-48,930	-216,860
<b>Total change in reserves and provisions relating to operating activities</b>	<b>-351,849</b>	<b>-752,849</b>

The decrease in the level of reserves between 2004 and 2005 is largely due to the use of the reserve for outstanding vacation days (refer to Note 4.8.). Additional information about the decrease in provisioning against tangible fixed assets and inventory is provided in Notes 4.2. and 4.4., respectively.



**4.20. Other Operating Income (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Settlement of losses from passenger transportation from the State budget including the subsidy for student fare	2,625,704	4,867,405
Settlement of losses from passenger transportation from the regional budgets including the subsidy for student fare	4,469,286	2,174,846
Other subsidies	718,734	524,337
Recoveries of receivables written off and transferred	4,240	399
Contractual penalties and default interest	114,686	363
Compensation for damage from insurers and other entities	122,348	126,586
Other	505,023	502,731
<b>Total other operating income</b>	<b>8,560,021</b>	<b>8,196,667</b>

In the year ended 31 December 2004, the State partly guaranteed and subsidised the loss in the regional passenger transportation. Since 2005, the provision of the subsidy for the regional passenger transportation has been fully transferred to regional authorities. Other subsidies predominantly include the subsidy for the Complementary Social Programme related to the restructuring of the workforce. The "Other" line includes, for instance, payments of employees for boarding, vacation, commissions from the sale of transportation vouchers (tickets etc).

**4.21. Other Operating Expenses (in CZK thousand)**

	Year ended 31 Dec 2005	Year ended 31 Dec 2004
Contractual penalties and default interest	3,921	4,815
Write-offs of receivables and transferred receivables	25,970	8,217
Deficits and damage relating to operating activities	28,990	68,745
Insurance	165,954	142,803
Employee uniforms and lump sum payments	151,475	105,226
Compensation for asset damage and impaired health	59,262	38,319
Membership allowances	28,016	31,258
Other operating charges	52,524	35,628
<b>Total other operating expenses</b>	<b>516,112</b>	<b>435,011</b>

**4.22. Other Financial Income and Expenses**

Other financial income and expenses largely include foreign exchange rate gains and losses. A significant portion of the positive impact of the exchange rate gains and losses on the results of operations for the year ended 31 December 2005 was due to the positive development of the EUR exchange rate in relation to loans and borrowings in foreign currencies as disclosed in Notes 4.9. and 4.12.

**4.23. Extraordinary Income and Expenses**

Extraordinary income predominantly includes the sale of a part of business (construction administration overseeing development of railway routes) to SŽDC as of 1 January 2004. The net book value of the sold assets and liabilities (largely tangible fixed assets) of CZK 15,882 thousand and the selling price of CZK 117,867 thousand were recorded as extraordinary expenses and income, respectively.

**5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES**

The following table summarises the average recalculated number of the Company's employees and managers for the years ended 31 December 2005 and 2004: 2005 (in CZK thousand)

	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	64,958	16,016,637	5,276,428	631,177	21,924,242
Management	274	188,023	65,071	4,348	257,442
<b>Total</b>	<b>65,232</b>	<b>16,204,660</b>	<b>5,341,499</b>	<b>635,525</b>	<b>22,181,684</b>

2004 (in CZK thousand)

	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	73,547	16,847,520	5,675,174	621,576	23,144,270
Management	278	165,389	57,015	2,336	224,740
<b>Total</b>	<b>73,825</b>	<b>17,012,909</b>	<b>5,732,189</b>	<b>623,912</b>	<b>23,369,010</b>

In addition to the possibility of using reduced fares, the members of the Company's statutory and supervisory bodies were provided with cash bonuses of CZK 3,312 thousand and CZK 3,466 thousand in 2005 and 2004, respectively. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

**6. CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS**

The Company has implemented systematic measures designed to protect the environment and to put environmentally friendly procedures in place. In 1999, an information system was installed for monitoring expenses associated with consumption of energy, water and costs associated with environmental protection (the "environmental information system"). With effect from 2000, the Environmental Department of the CEO's Office has been undertaking internal environmental audits on an annual basis. The Company has not been subject to a complete environmental audit. The potential environmental costs to be ultimately incurred by the Company, if any, cannot presently be determined and no adjustments have been recorded in respect of these costs in these financial statements. The costs of removing environmental damage already caused by the Company are charged to operating expenses.

On 24 February 2005, the Company entered into the Framework Lease Contract for the purchase of railway vehicles in the aggregate amount of CZK 1.2 billion. Railway vehicles received under the finance lease arrangement in the current reporting period are disclosed in Note 4.2.2., other railway vehicles will be taken over in the following periods. The Company issued a blank bill with restrictive clause for the benefit of CityLeasing, s.r.o as a collateralising instrument. In compliance with the bill arrangement, the lessor will be entitled to fill in the bill amount equal to the amount due for the rent and facilities, up to 40 percent of the acquisition cost, net of VAT of the leased assets, provided the lease contract is breached.

## 7. OTHER INFORMATION

### 7.1. Significant Factors Impacting the Company's Operations

The Company was formed pursuant to, and its operations are governed by, general legal regulations governing joint stock companies and the Transformation Act. The Transformation Act, inter alia, sets out the scope of the Company's assets and its role in operating railway routes and rendering transportation services in the public interest.

The Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designed categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. Management has determined that the funds earmarked in the State budget for settling public service commitments resulting from contracted volumes of long-distance and regional transportation output in 2005 are lower than the aggregate loss.

At the date of the financial statements, all contracts for regional transportation services among self-governing units and ČD, a.s. for 2006 were signed.

A draft of the agreement with the State setting out the anticipated volume of compensation for the year ending 31 December 2006 has been submitted by the Company. Pursuant to the received monthly upfront financing and prior year experience, management of the Company anticipates that the agreement with the State setting out the proposed level of compensation will be entered into during 2006. Similarly as in 2005, management anticipates that the aggregate level of compensation received for the year ending 31 December 2006 will be lower than the aggregate loss from long-distance and regional passenger transportation.

The Company operates railway routes on the basis of a three year agreement put in place with SŽDC. The current agreement, which, inter alia, stipulates the level of compensation (the Company's income) for operating railway routes, has been entered into for the period from 2003 to 2005. At the end of 2005, a new contract involving the method of securing and operating the railway routes, their operability and modernisation in the public interest for 2006 – 2009 was entered into between ČD, a.s. and SŽDC, s.o.

The Company makes payments to SŽDC for the use of railway routes. The level of this compensation (cost to the Company) is established in Pricing Act 526/1990 Coll., as amended.

### 7.2. Transactions with SŽDC

#### Expenses and income

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2005 and 2004 were as follows:

2005 (in CZK thousand)

	Expenses	Income
Securing railway routes – management of operation	–	4,488,040
Securing railway routes – maintenance of operability	–	6,755,939
Securing modernisation and development railway routes	–	34,817
Use of railway routes – passenger transport	1,483,719	–
Use of railway routes – freight transport	4,200,261	–
<b>Total</b>	<b>5,683,980</b>	<b>11,278,796</b>



2004 (in CZK thousand)

	Expenses	Income
Securing railway routes – management of operation	–	4,919,217
Securing railway routes – maintenance of operability	–	6,455,695
Securing modernisation and development railway routes	–	40,174
Use of railway routes – passenger transport	1,468,885	–
Use of railway routes – freight transport	4,341,201	–
<b>Total</b>	<b>5,810,086,</b>	<b>11,415,086</b>

Income from the securing of railway routes and modernisation and development of railway routes is reported as income from the sale of the Company's products and services and is disclosed in Note 4.15. The costs of providing these services are reported as a component of the Company's total expenses.

The costs of using railway routes are reported as services and are disclosed in Note 4.18.

#### Receivables and Payables

As of 31 December 2005, the Company recorded amounts due to and from SŽDC. The total net balance of these amounts represents a payable of CZK 526,456 thousand (2004: CZK 628,456 thousand), which is included within trade payables. In addition, the Company records a payable arising from the unbilled supplies from SŽDC, disclosed as an estimated payable amounting to CZK 79,775 thousand as of 31 December 2005.

#### 7.3. Post-balance Sheet Events

No significant events occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

**The Company's Statutory Bodies**

As of 15 February 2006, Mr. Ivan Foltýn withdrew from the position of the member of the Board of Directors and the position of the Deputy CEO of Economy. As of 17 February 2006, Mr. Vladimír Filip was appointed the Deputy CEO of Economy and, as of 7 March 2006, the member of the Board of Directors.

As of 14 February 2006, Mr. Kurt Mužík withdrew from the position of the member of the Supervisory Board. In a by-election held from 2 to 4 May 2006, Mr. Jan Bitter was elected the member of the Supervisory Board.



The Board of Directors of České dráhy, a.s. (hereinafter the "Company"), by way of its resolution No. 686/2004, approved at its meeting held on 27 January 2004, decided that the Company would not prepare a Report on Relations between the Controlling and Controlled Entity and on Relations between the Controlled Entity and Other Entities Controlled by the Same Controlling Entity for the year ended 31 December 2003 (hereinafter the "Related Party Report"). In parallel, the Board of Directors of the Company has not adopted an opposite resolution until now.

In the opinion of the Company, if no controlling contract was concluded, the obligation to prepare the Report on Related Party Transactions within three months after the end of the reporting period relates only to the statutory bodies of controlled entities associated in groups where relations are subject to uniform management. Such a Report on Related Party Transactions comprises all of the relations within the group to which the relevant controlled entity is included.

The arrangement where the Czech Republic takes the position of a controlling entity is not considered a group because a group consists only of a controlling entity and controlled entities whose enterprises belong to the group. An enterprise is a set of tangible and intangible components of business activities. An enterprise contains objects, rights and other property values owned by an entrepreneur and used for the management of the enterprise.

AEIF	European Association for Railway Interoperability
CER	Community of European Railways
CEVIS	Central Wagon Information System
CNP	Central Freight Cash Desk
ČD	České dráhy, akciová společnost / Czech Railways, joint stock company
ČD-T	ČD - Telematika a.s.
DTNP	Freight transport data market
DTOP	Passenger transport data market
EC	Passenger train category of higher quality (Euro City)
EUROFIMA	European Company for the Financing of Railroad Rolling Stock
ETCS	European Train Control System
FIATA	International Federation of Freight Forwarders Associations
GSM-R	Global System for Mobile Communications-Railways)
GVD	Train transport flowchart
IC	Passenger train category of higher quality (InterCity)
ISOŘ	Information System of Operational Management
OSŽD	Organizace pro spolupráci železnic / OSJD – Organisation for Railways Cooperation
PARIS	Sale and Reservation Information System
POP	Portable personal cash desk
RID	Rules for the transport of dangerous goods by rail
Ro-La	Rollende Landstrasse / railway transport of trucks
SC	Passenger train category of highest quality (SuperCity)
SENA	System for preparation of timetables
SFDI	State Fund of Transport Infrastructure
SŽDC	Správa železniční dopravní cesty / Railway Route Administration
TERFN	Trans-European network for freight transport
TSS	Track Mechanical Company
TÚČD	Technical central office of České dráhy
ÚDIV	Central freight car management
UIC	International Union of Railways
UNIPOK	Versatile ticket office
VUZ	Výzkumný Ústav Železniční, a.s. / Railway Research Institute





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