



04

> Essential Economic Ratios

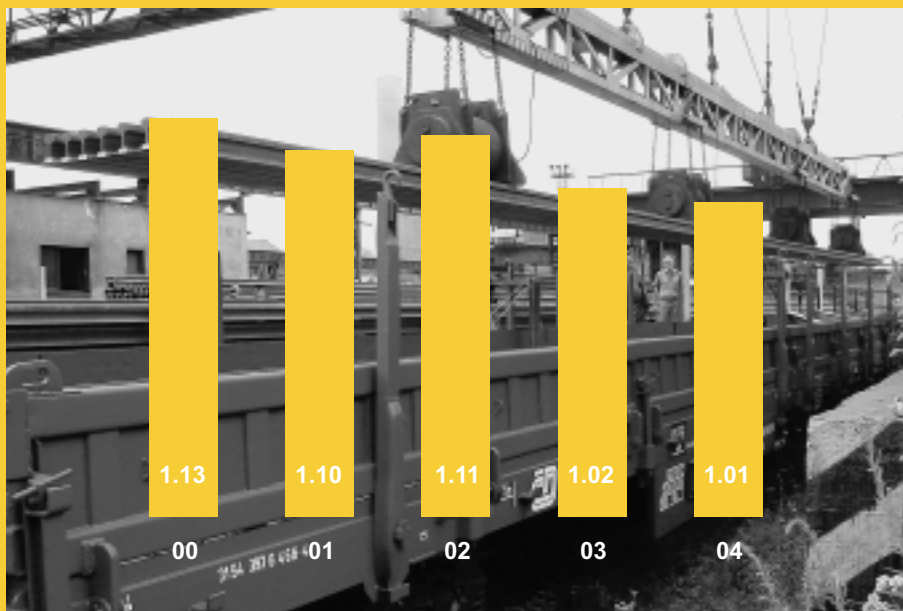
Ratio	2004	2003	1. 1. 2003*)	Index 04/03
Assets and liabilities (CZK million)				
Total assets	47,301	45,291	41,396	1.04
Non-current assets	38,729	36,236	37,429	1.07
Current Assets	8,552	9,018	3,937	0.95
Equity	37,576	38,316	39,478	0.98
Liabilities	9,604	6,831	1,845	1.41
Profit or loss (CZK million)				
Profit or loss from operating activities	-654	-903		0.72
Profit or loss from financial activities	-60	-3		20.00
Profit or loss for the period	-621	-925		0.67
Income (CZK million)				
Total income	45,982	47,247		0.97
Sales of own products and services	36,550	37,874		0.97
Other income	9,432	9,373		1.01
Financial ratios				
Turnover of assets (income/assets)	0.97	1.04		0.93
Indebtedness (liabilities/assets)	0.20	0.15		1.33
Liquidity (investments/short-term payables)	0.31	0.40		0.78
Employees				
Average headcount recalculated for full-time employees (number of employees)	73,825	78,575		0.94
Income per employee (CZK/employee)	622,851	601,298		1.04
Added value per employee (CZK/employee)	224,363	230,969		0.97

*) Date of the Company's establishment.

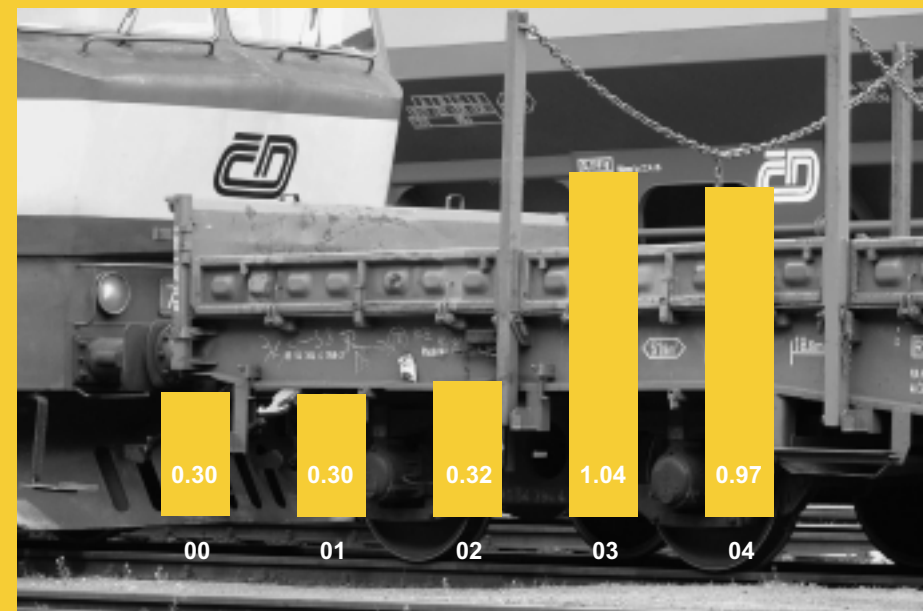
> Essential Economic Ratios

Economic Ratios (in CZK million)

Expenses on CZK 1 of income

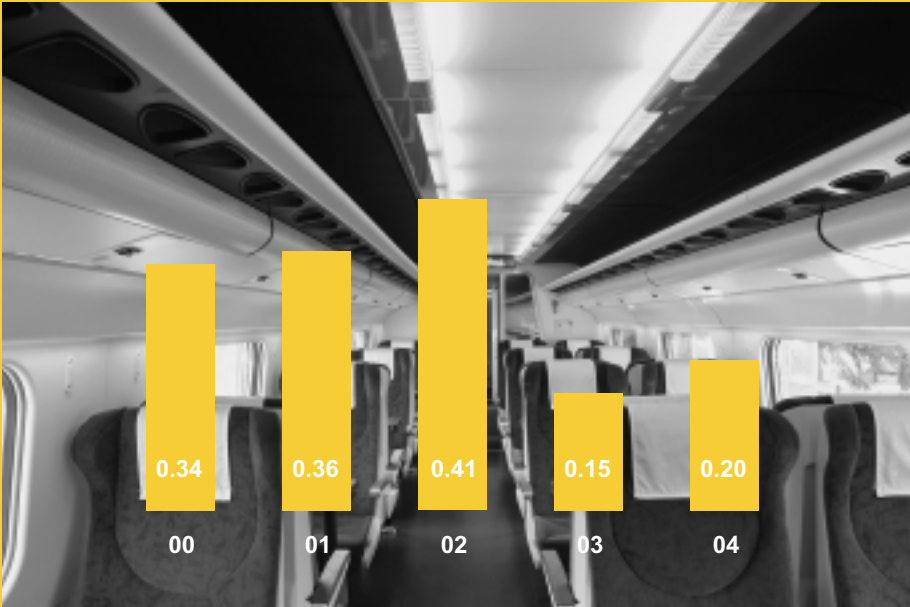


Turnover of assets



Note: Data for 2000–2002 refer to České dráhy, a state organization.

Indebtedness



Liquidity





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> Mission, Vision and Goals of the Company

The major mission of our Company 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 economic manner through mutual integration of the individual types of public transport. Our efforts for the restructuring of the national railway enterprise 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.

> Company Profile

The Company is engaged in the provision of public transport services and other supplementary and related services both to passengers and railway transport operators. Based on orders and contractual relations, the Company provides for the operation and maintenance of nation-wide as well as regional railway lines administered by the state organisation SŽDC, s.o. (Railway Infrastructure Administration). In addition to the services pertaining to transport of passengers and merchandise and activities relating to the operation of railroad tracks, Czech Railways offers its customers a comprehensive set of services in other fields, primarily railway research, testing and telematics.

Czech Railways' 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 lines which are operated and maintained by the Company on a contractual basis and one third of which 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.

Czech Railways 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, the Company meets the transport needs of its clients and the transport performance and scope of the maintained and operated tracks ranks the Company as one of ten major European railway enterprises and one of the five largest ones in the European Union.

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

Czech Railways 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. The Company 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.





**CZECH
RAILWAYS**

**Operation
of Railway
Transport**

**Freight
Transport**

**Passenger
Transport**

**Operation
of Railway
Infrastructure**

**Operational
Management
of Train
Circulation**

**Provision
of Railway
Lines
Functionality**

**Other
Activities,
Repair and
Maintenance**

> Opening Statement of the Chairman of the Board of Directors

Ladies and Gentlemen, Dear Business Partners,

In 2004, Czech Railways operated for the second year as a traditional joint stock company. Czech Railways underwent a number of changes during the year whereby client focus and subsequent transformation of the Company's management system became the main priorities in addition to clearly defined internal economic relations based on achieving commercial success.

During 2004, we therefore replaced the complex multi-level management process with a more flexible and simple two-level system with only one Director's Office and executive units in the form of junction stations, railway vehicle depots, car repair sheds and infrastructure administration sites. This enabled us to establish a firm basis for even more profound changes to be implemented in the Company in 2005 and in the future. Our objective is clear: to be a successful railroad operator with a strong position on the local and European markets.

In order to fulfil the above objective, the new management resumed last year's efforts by preparing an action plan in 2004 which is based on the following priorities.

- > We decided to place our major areas of operation – passenger and freight transport, at the highest management level, that is, directly under the competency of the Deputy CEO. As a result, the Company should be able to better and more efficiently respond to requirements of our clients and further develop its competitiveness on the liberalized transportation market.
- > We give strong emphasis to the business justification of all activities, well-defined product offer for clients, ability to analyze development trends and respond to them.
- > Our other aim is to strengthen the image of Czech Railways as a transforming company and increase the attractiveness of the ČD brand to the public. Our priorities, in addition to offering new services, also include the modernization of rolling stock and revitalization of train stations and other infrastructure. This goes hand in hand with communicating these initiatives to the public.

One of the objectives set out by management of Czech Railways in the long-term involves the implementation of the second stage of transformation of the management structure into a holding type of organisation whereby main operations are spun off to subsidiaries. This will enable Czech Railways to further strengthen product and process management in order to increase the independence and responsibility of subsidiaries, transform mutual relations to a standard business form and respond more actively and faster to client requirements.

A similar management structure has proved to be a good solution with many foreign railway enterprises, whether run by a government or privately.

However, the year 2004 brought more than the establishment of necessary foundations for changes in the management structure. When looking at the results in 2004, Czech Railways also recorded a positive trend in its operations.

The loss of 2004 was CZK 621 million which is the best economic achievement in the existence of the independent joint stock company as well as in the history of the former state organisation. We improved the planned figure by CZK 377 million and reduced the loss by CZK 304 million year-on-year. We send a good message to our business partners: we reported only an accounting loss. The cash flow figures are balanced for the previous year and we were able to settle all our obligations without any difficulties.

We also set challenging objectives in the sphere of passenger and freight transport. Our intention in passenger transport was to transport a larger number of passengers than in 2003. We ended up exceeding the projected figure by 4 million as we transported almost 179 million passengers instead of the planned 175 million which was approximately a 7 million year-on-year increase. This shows the constantly high interest of our citizens in passenger railway transport. In contrast, we were not successful in meeting the plan in the freight transport segment where the competition of road transport and private railway enterprises is very tight. We carried more than 80 million tons of merchandise which is approximately 5 million tons less compared to 2003.

This trend, however, is partially understandable and justifiable by a number of objective reasons. Unequal conditions and a deteriorated market where our competitors bear lower costs, for example for the use of the infrastructure are the main reasons for the above described development. While we are able to offer just-in-time transport,



> Opening Statement of the Chairman of the Board of Directors

comparable speed and other services similar to those rendered by our railway and road competitors, it is very difficult to compete in a situation where our competitors hardly report any expenses relating to the use of the transport route and settlement of external costs. In order to create equal opportunities in the transport market, enhance environmental protection in our country and protect economic interests of our tax payers, I consider it crucial to introduce tolls for publicly accessible communications to be paid by all transport providers and even distribution of expenses on the maintenance and operation of infrastructure and on external transport costs.

Concluding my speech, I would like to mention further development of our Company which would not be possible without investments into new services, trains and stations. We initiated modernisation of older freight wagons for approximately CZK 1 billion in order to be able to meet the current requirements of our customers. In this context, we also prepared several contracts for acquisition of brand new freight wagons for a total value of CZK 1.2 billion. We continued with modernisation of the passenger rolling stock acquiring other diesel railcars of 854 series for non-electrified tracks and other electric trainsets of 471 series. The Pendolino fast tilting train launched its trial operation with passengers and we believe that it will successfully pass the approval process this year and will be launched for regular operation on major international and domestic lines in late 2005.



In 2004, we therefore replaced the complex multi-level management process with a more flexible and simple two-level system with only one Directorate and executive units in the form of junction stations, railway vehicle depots, vehicle repair shop and infrastructure administration sites.

Ladies and gentlemen, dear business partners, the above was a short summary of the year 2004 at Czech Railways and of current priorities of management. Please let me take this opportunity and thank you for your confidence in our Company and in railway transport in general. I highly appreciate the opportunity to provide you with our services and hope to meet you again at the stations and in trains of Czech Railways in the year to come.

Josef Bazala

Chairman of the Board of Directors and Chief Executive Officer, ČD, a.s.



> Major Events of 2004

Organisational Changes

- > On 19 December 2003, the shareholder (the Steering Committee of ČD) decided on the transition of Stavební správa Praha, Stavební správa Olomouc and Stavební správa Plzeň as the executive component of the railway transport route's investor from Czech Railways to SŽDC as of 1 January 2004. The transition took the form of the sale of part of an enterprise. Following the transfer of the above civil engineering administration sites, our Company re-defined the process of its investment activities effective 1 February 2004.
- > As of 1 April 2004, we made substantial changes in order to provide for effective management of freight transport by establishing Regional Client Centres (RZC) as part of the Freight Transport Department within the General Directorate. RZC are located in Ostrava, Brno, Pardubice, Prague, Ústí nad Labem and Plzeň.
- > Responding to the continuing trend of bringing the spheres of telecommunications and informatics together, we merged the organisational units Datové a informační služby (Data and Information Services, DATIS, o.z.) and Správa železničních telekomunikací (Administration of Railway Telecommunications, SŽT) into one integrated unit named TELEMATIKA, o.z. The merger was performed as of 1 April 2004 based on the decision of the Supervisory Board of 12 December 2003.
- > As of 1 April 2004, we established Dílny pro opravu vozidel (Vehicle Repair Shops, DPOV) in Nymburk and Přerov. As of 1 July 2004, the number of Depa kolejových vozidel (Rolling Stock Depots, DKV) was reduced from 11 to 8 established in Brno, České Budějovice, Česká Třebová, Olomouc, Ostrava, Plzeň, Prague and Ústí nad Labem.
- > Further, 1 April 2004 was the date of establishment of 60 junction stations (UŽST). The difficult process of rationalisation focused on the creation of conditions for the provision of safe operation and enhancement of the operation's monitoring.
- > On 12 May 2004, the Steering Committee issued a resolution whereby it approved the document "Strategic Development of Czech Railways" which anticipates the Company's transition to a holding structure in two stages:
 - in stage one, transfer of repair and maintenance services to subsidiaries; and
 - in stage two, activation of the subsidiaries for key business activities.
- > On 25 June 2004, the Supervisory Board acknowledged the intention of the Board of Directors to establish ČD Generalvertretung GmbH registered in Frankfurt am Main as of 1 September 2004. The Company was incorporated on 1 January 2005.
- > In cooperation with Masaryk Station Investment, a.s., we established a joint venture, Masaryk Station Development, a.s., on 30 June 2004 which is to provide for the development and implementation of the Masaryk Station project in Prague. Prior to the joint venture's establishment, the Supervisory Board issued a preliminary approval on 30 January 2004 and approved the structure and charter of the joint venture on 30 April 2004. The company was incorporated on 7 October 2004.
- > Effective from 1 July 2004, KPT Litoměřice and KMŽP Olomouc were merged into one organisational unit Odúčtovna přepravních tržeb (Traffic Receipts Clearing, OPT) located in Olomouc.
- > As of 1 October, we established 13 Regional Centres for Passenger Transport (KCOD) as part of the Passenger Transport Department within the General Directorate. The centres are charged with representation of Czech Railways in the individual regions.
- > On 15 December 2004, the Steering Committee approved a non-monetary investment of part of ČD, a.s., identified as the TELEMATIKA branch into ČD - Telekomunikace a.s. Thus, Czech Railways increased their then 40% equity investment in the latter company to the majority 51% investment. Prior to the above decision, a General Meeting of ČD - Telekomunikace a.s., was held on 23 November 2004 where the increase in the share capital of the company in the form of the subscription of new shares was approved.



> Major Events of 2004

- > On 15 December 2004, the Steering Committee approved the business plan of Traťová strojní společnost, a.s., and its Deeds of Foundation. The Company was established on 1 January 2005 by transformation of the former specialised branch TSS Pardubice.
- > Following the establishment of RZC on 1 April 2004 and KCOD on 1 October 2004, we cancelled the Trade and Operations Directorates (OPŘ) in Brno, Ostrava, Pardubice, Plzeň, Prague and Ústí nad Labem effective 31 December 2004 upon the decision of the Board of Directors of 12 October 2004. The above offices were replaced by Regional Operational Centres as of 1 January 2005. These centres are included in the Infrastructure Operation Department within the General Directorate and the economic and other key activities of the cancelled OPŘ offices were newly distributed within the General Directorate.

Business Activities

- > On 26 March 2004, we organised the meeting of the supreme bodies of EUROFIMA (European Company for the Financing of Railroad Rolling Stock). The Management Board approved the intention to increase the share of ČD, a.s., in EUROFIMA from 0.5% to 1%. This step allowed for an increase in the volume of finance for renewal of passenger rail vehicles.
- > The national valuation committee of the Manager of the Year competition which is organised by the Czech Manager Association of the Confederation of Employer and Entrepreneurial Unions of the Czech Republic and Federation of Industry and Transport of the Czech Republic in cooperation with the Managerial Federative Fund awarded the CEO of České dráhy, a.s., Petr Kousal, the prestigious prize "Manager of the Year 2003" in the sector of transport, logistics and communications.
- > Based on the order of the Municipality of Prague, we have operated a municipal railway line Praha-Libeň – Praha-Holešovice – Praha-Bubeneč – Praha-Sedlec – Roztoky u Prahy since 19 April 2004 with the peak time interval of 30 minutes.
- > On the basis of a contract with the Czech Ice Hockey Union, we became the official transport provider during the major sports even of 2004 in the Czech Republic, the ice hockey World Championship held in April and May 2004 in Prague and Ostrava.
- > Effective 28 April 2004, we were granted the Eurolicense for the operation of railway transport by the Railway Authority for an indefinite period of time. The license is valid for the territory of the European Union and the European Economic Community countries.
- > In connection with the accession of the Czech Republic to the European Union on 1 May 2004, we managed to substantially reduce the time necessary for the delivery and acceptance of international trains in the border railway stations in cooperation with the partner national railway enterprises.
- > The reciprocal movements of our locomotives abroad have grown since the introduction of the new train timetable on 12 December 2004. The inter-operable locomotives of ČD of the 371 series travel 350 km into German territory as part of the long-distance passenger trains from Prague to Berlin and furthermore to the Polish town of Rzepin when leading trains from Berlin to Warsaw. In cooperation with Slovak partners, our locomotives power fast trains running 340 km to Bánovce nad Ondavou in North-Eastern Slovakia, 200 km to the Southern Slovakian town of Štúrovo, and leading freight express trains 100 km to the Hungarian border station of Rajka via Bratislava.
- > Since 23 December 2004, we have tested with passengers a high-speed trainset of the 680 series with a tilting body on inland fast train lines. The 680 trainset set a Czech record of 237 km per hour on the conventional track Břeclav – Brno on 18 November 2004.
- > In 2004, we were successful in maintaining the exclusive position within the ten largest European railway enterprises engaged in public transport of passengers and merchandise. Our position is even better within the European Union where we rank one of the five major transport providers from the perspective of the volume of transported merchandise.



> Report on the Company's Activities and Assets

Operation of Freight Transport

The total traffic outputs reported for 2004 indicate that the year was not an easy one for ČD in the freight transport segment. Final results show that we carried 80.23 million tons of goods, which is 6.0% less than in 2003. Nearly 12.5 million tons were transported by trains of competing local railway operators which is a year-on-year growth of almost 20%.

We managed to maintain the volume of traffic in the transit sector where we reported 7.30 million tons compared to 7.31 million tons reported in 2003 which was the record in the history of the independent Czech Railways. The difference was only 0.2%. For inland traffic, import and export, we reported 31.17 million tons of merchandise (a year-on-year decline of 5.4%), 21.32 million tons (a 5.0% decline) and 20.44 million tons (a 9.7% decline), respectively. The share of international traffic in aggregate traffic has grown since 1993, when the state organisation ČD was established, from 45.2% to the current 61.15% with a year-on-year decline of 0.2%. The share of bulk cargo (solid fuel, minerals, gravel, sand, liquid and gaseous fuel) in the aggregate traffic volume dropped from 70.1% in 1994 to 60.8% in 2004.

The year 2004 was the year of the Czech Republic's accession to the European Union, a year eagerly anticipated for a slight revival of the local economy and ending stagnation of our neighbouring Western economies. The proclaimed benefits of the EU accession sounded attractive, for example, free access to the infrastructure of the EU member countries, improved interconnection of the railway networks within the EU, expansion of the transport market, increased investments into the Czech railway infrastructure, etc. However, most of the above described advantages are likely to manifest only in a long-term horizon. In contrast, the cessation of custom obligations on borders had an immediate and crucial impact on railway transport – a negative one. Several-hour or even several-day lines of trucks disappeared from our borders and transport of those trucks via railway was no longer of interest for road carriers. The escorted combined transport line (Ro-La) Lovosice – Dresden stopped on 19 June 2004 after an 11-year operation, following the decision of the relevant ministers from the Czech Republic and Saxony. In 2004, we therefore transported 887 thousand tons of goods using the combined line which is a year-on-year decrease of 1.91 million tons, i.e. 68.3%. However, the above is not a closed issue for us and we re-opened negotiations for the re-launch of the Ro-La transport together with the Czech Transport Ministry. We are 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 null, period of time when trains wait at border stations. We have introduced new train lines. The share of combined transport increased from 1.5% to the current 7.2% over the 11-year history of ČD Cargo. Mention should be made of the record transport of merchandise in huge containers which grew from 1.01 million tons in 1994 to 4.55 million tons in 2004, reaching the highest level over the entire period with a year-on-year increase 12.3%.

Railway freight transport is operated under the trademark ČD Cargo within the 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. One station providing for acceptance and dispatch of shipments served a territory of an average of 69 square km and more than 8 km of railway lines. Twenty to twenty-five thousand railway wagons 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 operation of the infrastructure and had ČD been able to invest internal resources into modernisation of the offered transport services rather than into co-financing socially acceptable transport 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 Railway's Forwarding Agency and the general representatives of Czech Railways abroad: in Berlin, Bratislava, Frankfurt am Main, Moscow, Stockholm, Warsaw and Vienna. Our transport supervisors monitor and control the quality of the executed transport on an ongoing basis.

Trade activities of ČD Cargo within the freight segment focused on the following issues during 2004:

- > Resolving problems encountered in innovating the rolling stock's structure through the lease of advanced coaches from other owners for selected customers and increased pressure on flexible responses to repair needs respecting financial limitations;
- > Maximum satisfaction of customers operating in the field of bulk cargo, namely solid fuels, to whom sufficient transport resources can be offered;
- > Meeting the demands for international transport of wagon shipments with the help of modern wagons borrowed from foreign railway operators;



> Report on the Company's Activities and Assets

- > Making use of the increased demand for combined non-escorted transport, namely large containers;
- > Technological and marshalling modifications in the operation of freight transport to meet clients' requirements and needs and within rationalisation projects;
- > Offering in the area of system trains and outside the combined transport segment in cooperation with strong forwarding customers;
- > Utilisation of 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 the executed transport transactions and adoption of preventive measures; and
- > Promotion of our freight transport services in the client centres, in the ČD Cargo magazine, at international transport fairs in Moscow, Bratislava, Köln am Rhine and at the "ČD Cargo Conference" held in Luhačovice.

The positive fact about freight transport is that we manage to maintain the three fundamental trends:

- > Gradual shift in transport from bulk cargo to finished products;
- > A high share of international transport in aggregate transport of goods, with import/export and transit accounting for 61.15% of the freight transport volume; and
- > Development of progressive transport types – non-escorted combined transport (primarily international transport of large containers).

Within inland traffic, we managed to increase the volume of transported iron scrap by 14.5%, i.e. 200 thousand tons, cement, large containers, coke, iron and engineering products. The aggregate increase approximates 390 thousand tons year-on-year. A decline of approximately 5.6%, i.e. more than 1 million tons was witnessed in transport of solid fuels. This resulted primarily from non-recurrence of extraordinary exports of electric energy by the power company ČEZ of 2003 and transport of brown coal and substrates associated with the production of electric energy (limestone for desulphurisation, gypsum, slag) therefore remained on the standard levels without any new acquisitions.

The growing output of the competing railway transport operators who are engaged primarily in the inland traffic segment but whose sphere of interest is expanding to international traffic, had an extraordinary impact on our business activities. Anybody can gain free access to the railway infrastructure after meeting the conditions stipulated by law and the number of enterprises with qualified personnel, driving vehicles and adequate cars is quite high. When providing for transport of full train-loads at very low cost in a limited number of relations, such competitors are hard to beat from the financial perspective.

The development in the import and export segments was much more complicated in 2004, having adverse implications. We managed to increase the volume of transported large containers, iron scrap, liquid fuels and minerals by 17.3%, i.e. 495 thousand tons; 13.5%, i.e. 218 thousand tons; 11.3% or 137 thousand tons and 6.4% or 132 thousand tons, respectively. However, the aggregate growth of 1.4 million tons could not cover the losses from transport in other segments. The largest drop was reported for transport of trucks via railway, the "Ro-La" system, on the Lovosice – Dresden line: 68.3%, i.e. 1.9 million tons. The drop in food and agricultural products, transport of timber and import of iron ores was 46.7% or 761 thousand tons, 17.6% or 497 thousand tons, and 8.5% or 680 thousand tons, respectively. The decline in transport of iron ores is connected with the shift in production technologies from ore fusion to processing of imported raw semi-finished products (for example, to ISPAT Nová huť from Poland), and/or with the overall reduction in production (such as in Třinec). The remaining and largest drops (Ro-La and transport of timber) resulted from the accession of the Czech Republic to the European Union and further promotion of the competing flexible road transport.

Our railway freight transport in the transit business line was under significant competition pressure. As indicated by the statistics issued by the Transport Ministry, it was specifically transit truck transport on inland highways and 1st class roads that reported a 30% growth after the Czech Republic's accession to the EU. We succeeded in balancing the results together with ČD Cargo. When compared to the overall volume of transport in transit of 7.30 million tons – the second largest in the whole eleven-year history of ČD, the year-on-year decline of 13 thousand tons is more than a good result. Due to the decrease in other types of transport, the share of transit transactions in the aggregate volume of transported merchandise went up to 9.1% in 2004 from the original 5.3% in 1994.

Despite the difficulties encountered in 2004, we managed to maintain our exclusive position among the five largest transport operators 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 sustainable development of mobility, namely in the form of adoption of the binding transport policy of the European Community. Special attention should be paid to adequate



> Report on the Company's Activities and Assets

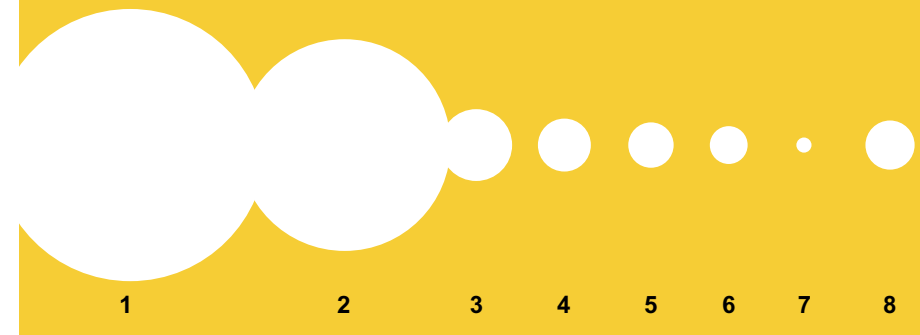
utilisation of efficient railway transport (environmentally friendly, safe, term oriented, high capacity, equipped with modern vehicles) and international harmonisation of transport systems. The Czech Transport Ministry has worked on the development of the governmental transport policy which is a very desirable basis from which to assist, together with the related amendments of the industry's legal regulations, in optimising saturation of ČD Cargo's capacity on the market.

Just as the needs of the European economy were an impulse for the establishment of the European Union interconnected on the economic and political level, there is currently a need for close cooperation of European railway operators. The future of railway freight transport certainly has a pan European dimension and ČD Cargo will make every effort to occupy a prestigious position.



Share of Commodities in Transport of Merchandise

1 Solid fuels	28,987,911 t	36.13%
2 Ores, iron, steel and machinery products	22,341,599 t	27.85%
3 Building materials and minerals	7,729,371 t	9.63%
4 Combined transport	5,805,774 t	7.24%
5 Timber and wooden products	4,555,712 t	5.68%
6 Liquid fuels and products from oil	4,138,485 t	5.16%
7 Agricultural products, food	1,433,554 t	1.79%
8 Other merchandise	5,235,494 t	6.52%



ČD Forwarding Agency

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



> Report on the Company's Activities and Assets

Freight Transport

Ratio	Unit	2004*)	2003*)	2002**)	2001**)	2000**)	Index 04/03
Transportation of goods exclusive of PVP***)	mil. tons	80.23	85.35	82.65	88.01	89.77	0.94
Transportation of goods including PVP***)	mil. tons	87.75	93.14	90.27	96.09	98.26	0.94
Sales from the transportation of goods****)	CZK mil.	15,219	16,061	15,570	17,085	17,539	0.95
Total sales from freight transport****)	CZK mil.	17,679	18,531	17,871	19,503	20,386	0.95
Total income from freight transport****)	CZK mil.	17,904	18,783	21,084	22,574	21,211	0.95
Expenses on freight transport*****)	CZK mil.	15,608	16,199	20,391	20,192	19,921	0.96
Payments for the use of the infrastructure*****)	CZK mil.	4,341	4,278	10,353	9,519	9,185	1.01
Profit/ loss from freight transport	CZK mil.	2,296	2,584	693	2,382	1,290	0.89
Transport rate per ton	CZK/ton	189.69	188.18	188.39	194.13	195.38	1.01
Net ton kilometres of ČD Cargo	mil. net km	15,566	16,396	16,130	17,366	18,183	0.95
Transport rate per net km	CZK/net km	0.98	0.98	0.97	0.98	0.96	1.00
Total ČD Cargo gross ton kilometres	mil. gross tkm	32,149	33,725	33,287	36,015	37,274	0.95
– ČD Cargo gross ton kilometres in electric traction	mil. gross tkm	29,144	30,469	29,750	32,132	32,737	0.96
Total ČD Cargo train km	thousands of train km	34,922	36,354	36,431	39,228	40,527	0.96
– ČD Cargo train km in electric traction	thousands of train km	28,280	29,197	28,676	30,712	30,905	0.97
Total ČD Cargo train weight	ton/train	921	928	914	918	920	0.99
Average transportation distance	km	194.8	192.1	195.2	197.3	202.6	1.01
Empty running/ loaded running	%	73.62	70.41	73.28	73.83	69.18	1.05

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

***) The figures for 2000 to 2002 apply to the state organisation České dráhy. Therefore, some of the figures may not be comparable with the data for 2003 and 2004 relating to the operation of České dráhy, a.s. as one of the two legal successors of the state organisation.

****) PVP = weight of empty private wagons

*****) Sales from transportation of goods include income from the transportation of goods. Sales from freight transport also include, apart from sales from the transportation of goods, 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).

*****) Expenses on the infrastructure management were included in total expenses of freight transport until 2002.



> Report on the Company's Activities and Assets

Passenger Transport

Our business activities in the field of the provision of passenger transport services were aimed particularly at the performance of the income plan in 2004 without reductions in the number of transported passengers. We met the planned objectives and the results for passenger transport are better than those reported for 2002 and 2003. We build on this achievement to improve the company's image and to present ČD as a carrier who is able to successfully operate a nationwide system of public railway transport including long-distance lines served by trains of a higher quality.

The number of passengers and the volume of sales increased substantially throughout the year, unlike in the previous period. The average addition to the number of passengers for the individual months stabilised at 4% and Czech Railways carried nearly 7 million more individuals than in 2003.

We based our provision of passenger transport services on a new model of funding of railway passenger transport by the government and regions on a contractual basis whereby ČD as a transport service provider offers its vehicle capacity. The passenger transport offering is split into categories by the individual train types. Clients are served in a uniform manner in all segments in line with the effective price regulation and in order to keep the offering clear and easy to understand. One of the major events pertaining to passenger transport was the introduction of the student fare and the associated modification of competitive business offerings. The demonstrable loss on the tariff obligation with respect to the student fare imposed by legislation was reimbursed by the Transport Ministry.

In the international transport segment, the liberalisation of the border regime after the Czech Republic's accession to the EU brought new opportunities for border tourism and we introduced a Libnet+ product and extended the validity of the SONE+ product to the first tariff points in Austria and Poland. As to the City Star product, we negotiated advantageous price conditions for international transport with the majority of key railway enterprises.

The higher quality trains of the SuperCity (SC), EuroCity (EC) and InterCity (IC) categories were operated fully on the business basis by Czech Railways. The scope of transport services offered in this segment was expanded year-on-year on the Prague – Ostrava line by moving trains from the Ex category into the IC category with the aim of enhancing the quality of the transport services and transfer the train outputs which are not paid for by the government to the relevant category.

Long-distance passenger transport of the "R" (Fast trains) and "Ex" (Express trains) categories connected major cities in the Czech Republic and witnessed a slight increase in the number of places catered to within this passenger transport segment based on the requirements of the ordering parties.

The priority for trains in the Regional (Os) and Semi-fast (Sp) categories was to render basic transport services ordered by the regions. We extended our offering in the semi-fast category in order to provide for a fast connection of large dwellings. In 2004, the Integrated Public Transport System (IDS) was implemented in the Southern Moravian region. As a result, a significant shift of transport outputs handled by ČD into the IDS tariff segment was witnessed.

During 2004, orders of the individual regions were negotiated. The railway timetable for 2004–2005 is based on the scope of transport that enables meeting the planned levels and minimises the overall loss generated by passenger transport.

The transport of shipments in passenger trains was provided for through a transition to the upgraded ČD Kurýr system with over 180 sales points and expansion of escorted luggage deposit during transport. This move to the low-cost system was accepted by the public without any major difficulties. One of the factors that contributed to this was the thoughtful selection of the points of sale based on the anticipated volume of shipments.

The terms and conditions applicable to fare in inland and international traffic were brought closer in 2004 in order to eliminate the non-competitive combination of the two regimes. During 2004, we created conditions for the implementation of the "Passenger Charter" in connection with the possibility to claim compensation for damage caused by delays of international long-distance trains. The new system of the student fare called for the introduction of two segments for pupils below 15 years of age and students up to 26 years of age and cancellation of the ISIC Junior pass reductions. We used promotion fliers and printed advertisements to inform students



> Report on the Company's Activities and Assets

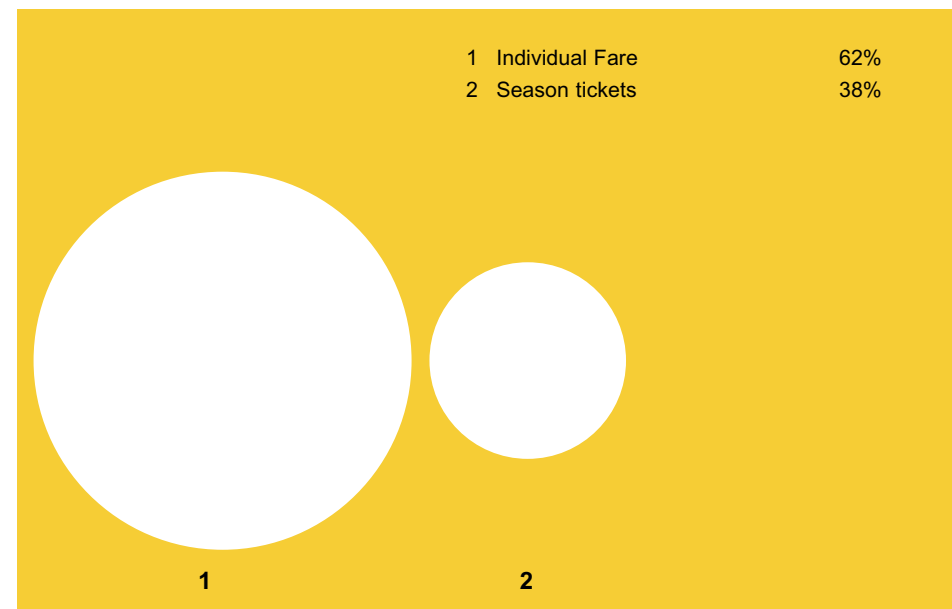
of the methods of claiming reductions and filling in the relevant passes. The marketing campaign "A New Destination Each Month" was spread over the whole of 2004 to provide organisers of social events with an opportunity to use the VLAK+ product in exchange for the promotion of Czech Railways.

In addition to the standard tools, our marketing communication with customers was also conducted via campaigns based on uniform printed promotion materials. An important role was played by the individual marketing events for our contractual customers that met with adequate reception by mass media. The biggest acclaim went to marketing events prepared based on the unified ČD manual.

By dispatching special and historical trains, we presented our company in both regional and nationwide press. We organised a total of 153 events, the most important of which were the nostalgic trips held on the occasion of the anniversary of the launch of operation on the relevant lines.



Share of Fare Types in Public Passenger Traffic



In the sphere of supplementary services, we gradually expanded the services attractive to the public such as the repository office at Prague Main Station where we enhanced the level of security and expect to introduce the service at other major stations. We also expanded the services rendered by our bike rental locations to meet the requirements of our customers and newly introduced the option of returning the bikes at a station other than the one where the bike was rented. Daily press and promotion materials are provided for free in selected long-distance trains.

Since late 2004, we have been using a new generation of UNIPOK equipment for the issue of tickets at stations and POP portable on-board equipment in trains. These devices are used for the issue of electronic travel documents. We made huge progress in the field of informing passengers via the Internet where they can find information on routes, delays, timetables and current stoppages.



> Report on the Company's Activities and Assets

Passenger Transport

Ratio	Unit	2004*)	2003*)	2002**)	2001**)	2000**) Index 04/03
Transportation of persons	mil. of passengers	178.82	171.98	174.98	188.28	182.55 1.04
Sales from transportation of persons***)	CZK mil.	4,716	4,431	4,653	4,479	4,253 1.06
Sales from passenger transport***)	CZK mil.	5,301	5,051	5,176	5,039	4,869 1.05
Other sales from major operation	CZK mil.	109	182	66	65	26 0.60
Expenses on passenger transport****)	CZK mil.	15,517	15,596	21,494	19,642	18,495 0.99
Payments for the use of the infrastructure****)	CZK mil.	1,469	1,480	8,613	7,221	6,551 0.99
Grants to cover losses from passenger transport*****)	CZK mil.	7,042	7,171	6,429	6,445	6,611 0.98
Total grants for passenger transport*****)	CZK mil.	7,178	7,243	9,683	9,273	7,541 0.99
Loss on passenger transport (including grants)	CZK mil.	-2,903	-3,120	-6,569	-5,265	-6,060 0.93
Loss on passenger transport (net of grants)	CZK mil.	-10,081	-10,363	-16,252	-14,538	-13,600 0.97
Passenger kilometres	mil. pass. km	6,533	6,483	6,562	7,262	7,266 1.01
Average transport distance	km	36.65	38.34	37.50	38.57	39.81 0.96
Income rate per person	CZK/person	26.37	25.77	26.60	23.79	23.30 1.02
Income rate per passenger km	CZK/pass. km	0.72	0.68	0.71	0.62	0.59 1.06
Train km of CD passenger transport	Thousands of train km	109,311	108,398	102,174	100,852	98,413 1.01
– train km electric engines	Thousands of train km	49,681	48,620	44,543	43,624	42,535 1.02
Number of passengers per train	Passenger/train	59.95	59.81	64.22	72.01	73.80 1.00

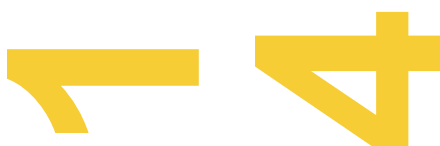
*) The figures from the separate accounting books held for the operation of railway passenger transport for 2003 were audited in compliance with Section 10 of Act No. 77/2002 Coll., as amended. The figures for 2004 have not been audited.

**) The figures for 2000 to 2002 apply to the state organisation České dráhy. Therefore, some of the figures may not be comparable with the data for 2003 and 2004 relating to the operation of České dráhy, a.s. as one of the two legal successors of the state organisation.

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

****) Expenses on the infrastructure management were included in total expenses of freight transport until 2002.

*****) Grants to cover losses from passenger transport include a grant from the state budget to cover expenses for the transport route with respect to passenger transport, a grant to cover expenses for the management of the railroad operation with respect to passenger transport and a grant to cover losses from the operation of passenger transport. Total grants for passenger transport include, apart from grants from state revenue to cover losses from passenger transport, grants from regions and other single-purpose grants designed for passenger transport.



> Report on the Company's Activities and Assets

Infrastructure Operation

České dráhy, a.s., and SŽDC, s.o., entered into a contract for the period of 2003 to 2005 pursuant to Act No. 77/2002 Coll., as amended, to regulate the method of providing for the operational management of the railway infrastructure, its functionality and operability, modernisation and development in the public interest, the responsibilities of the contractual parties including inspection and the amount of reimbursements.

Provision of Railway Lines Functionality

In 2004, we continued to be engaged in complex modernisation of the corridor sections. In 2004, we completed work on one divide-station section Přelouč – Řečany nad Labem with a length of 5.323 km within modernisation of the 1st transit corridor. Further, we finalised the construction of two railway stations: Řečany nad Labem and Choceň, with a total construction length of rails of 4.294 km. With respect to the 2nd transit corridor, one divide-station section, Studénka – Suchdol nad Odrou, with a length of 8.927 km was completed in 2004 and the Bohumín junction continued to be modernised. Two divide-station sections, Krasíkov – Rudoltice v Čechách and Štěpánov–Červenka, with a total length of 16.433 km were completed on the connection branch of the 1st and 2nd transit corridors (Přerov – Česká Třebová). On the Olomouc–Grygov section, the 2nd track with a length of 5.407 km was completed and 2.607 km was completed on the 1st track. A total of 2,607 km of two-line tracks was finalised on this section. In 2004, 3.157 km (Most branch railway – Lupěné branch railway) was finalised on the divide-station section Zábřeh na Moravě – Hoštejn. The remaining parts of the section will be completed in the following years. One railway station (Krasíkov) with the construction length of rails of 4.434 km was completed and partial completion was reported for the Třebovice v Čechách station with the rail length of 1.189 km. A total of 36.447 km of two-line sections and 9.917 km of main station tracks were completed on the 1st and 2nd transit corridor and on their branch railways.

The major efforts aimed at the improvement of the railway infrastructure in 2004 included the completion of the 2nd stage of the rebuilding of bridges over Seifertova street in Prague which is part of the “New Connection” project, i.e. a passage taking the transit corridor through the Prague railway junction. Other completed projects included modernisation of the safety equipment in the Prague Main Station. In 2004, we initiated the key stage of the “New Connection” project on the Praha-Libeň (Praha-Vysočany) – Prague Main Station section which is to contribute substantially to the improved transport capacity and increased drive speed of trains coming to/leaving Prague Main Station from the East.

In 2004, we continued to carry out the “Pre-electrification Modifications and Electrification of the Karlovy Vary – Kadaň Section” project which is anticipated to be completed in the first half of 2006. This project is to rationalise the operation of ČD's railway transport. We continued the electrification of the Rybník – Lipno nad Vltavou section and launched the operation of electric traction on the Rybník – Vyšší Brod klášter section. We started preparatory work on electrification of the Ostrava-Svinov – Opava-východ section. We progressed with the construction of the subway in the Teplice v Čechách station and executed the 3rd stage of the reconstruction of the Hradec Králové main station including the reconstruction of the 1st platform.

Czech Railways continued implementing the scheme aimed at safety enhancement on selected railway crossings in 2004. As part of the project, safety equipment was installed, reconstructed or upgraded on 140 crossings.

We continued to apply the new concept of utilising the telecommunication network during 2004. The network's construction was followed by the gradual debugging of the MD 110 communication system supplied by ERICSSON in the areas of Pardubice (including Hradce Králové), Brno, Olomouc, Ostrava and the related locations. Modernisation and digitalisation of the spinal network will bring changes not only in the voice and data level, but will also provide the basis for the development of an ATM (Asynchronous Transfer Mode) type transfer network. The whole project is to be completed in the spring of 2005 with the launch of the point of junction in Plzeň. ATM represents a high-speed multimedia communication network. The ATM service is characteristic of a huge variety of access speeds, service categories and guaranteed parameters which can be combined based on the current requirements.

By partially modifying the infrastructure, we were able to launch trial operation of the high-speed trains of the 680 “Pendolino” type with passengers on the Praha–Děčín line within the progressing testing of these cars prior to initiation of their regular operation.

The ITALFER study assessed the needs for the infrastructure's modification necessary to provide for full interoperability of the selected railway sections in the Czech Republic and foreign sections as defined in the EU standards.

In 2004, we were granted a license for trading electric energy by the Power Regulation Authority.



Chart of railway infrastructure maintained and operated on a contractual basis with highlighted corridor sections and location of the regional cities



1 Karlovy Vary 2 Plzeň 3 Ústí nad Labem 4 České Budějovice 5 Praha 6 Liberec
7 Jihlava 8 Pardubice 9 Hradec Králové 10 Brno 11 Olomouc 12 Zlín 13 Ostrava

> Report on the Company's Activities and Assets

Operational Management of Train Circulation

The operational management of train circulation is to provide for compliance with the requirements of individual transport operators in relation to train lines. The primary objective is to comply with the requirements of effective use of the railway infrastructure and provide for maximum operation economy and safe operation of the railway. This area of our business activity developed into a separate product segment during 2004 in connection with dramatic changes in ČD's organisational structure. This process resulted in a number of changes in mutual relations and competence of the individual segments in late 2004.

Seamless and reliable transport of people and merchandise on the railway is our priority. However, the quality of operational processes was significantly influenced by construction activities in the completion of the construction projects on the 1st and 2nd corridors and the associated extensive re-routing on the branch railway on the Česká Třebová – Přerov section which will roll forward to the next period. Apart from the finalised engagements, we commenced work on several important investment projects mentioned above (for example the "New Connection" project in Prague) the scope of which will also have an impact on the operation of the network in following years.

While the execution of construction activities impacted the adherence to the timetable, we managed to achieve a slight improvement of the key quality ratios. Timetable compliance was 91.7% in 2004 which is a year-on-year improvement of 1.3%. By increasing the timetable compliance, we strive to improve transport quality which is the fundamental factor substantially impacting the decision making process of customers when choosing the preferred type of transport.

We responded to the growing importance of operational management in the transport process by investments into state-of-the-art technological equipment and procedures. In addition to construction projects, we therefore adopted certain rationalisation measures in 2004 intended to contribute to enhancement of quality and efficiency of the transport processes. These measures included:

- > Enhanced safety on the Senice na Hané – Kostelec na Hané section and reduction in headcount of 80;
- > Reconstruction of the safety equipment in the Olomouc – Nová Ulice station where the headcount reduction was 75;
- > Modification of the safety equipment in the Obrnice station, 2nd structure, resulting in the decrease in headcount by 14; and
- > Transmission of information on undesirable warning on a crossing using metallic wiring which resulted in a reduction in headcount of 9; and several other minor engagements.

With respect to structures within the railway infrastructure (modernisation and reconstruction of the safety equipment) we:

- > cancelled the Střeň station, thus reducing the headcount by 18;
- > performed modifications in the Suchdol nad Odrou station, achieving a headcount reduction of 17;
- > cancelled the Odra side line and reduced the headcount by 14; and
- > reconstructed the crossing safety equipment on the Rudná u Prahy – Hostivice and Praha-Smíchov – Zličín sections, with a headcount reduction of 20, and a number of other similar engagements.

The total reduction in headcount achieved through the rationalisation projects was 242 employees in 2004.

We plan to perform other activities aimed at rationalisation in the next period. We will focus our attention on projects allowing for staff rightsizing and enhancement of operational safety. The scope of the activities actually performed will depend on the volume of finance available.

Czech Railways pays special attention to implementing of state-of-art technologies in operation management. Real-time information on the position and timing of trains provided to clients on-line is considered a standard tool in making travel plans. The possibility of employing cell phones in distributing train information is wider used. ČD was also successful in introducing new technologies assisting in train operation and concurrently reducing the number of employees, achieving levels typical for developed countries.

Czech Railways as a professionally competent and experienced integrated railway enterprise engaged in business activities on an international level develops and continually improves technological rules in line with the latest technological developments and international standards which enable successful liberalised performance of business activities of new railway operators on the infrastructure administered by SŽDC.



> Report on the Company's Activities and Assets

Infrastructure Operation

Ratio	Unit	2004*)	2003*)	2002**)	2001**)	2000**)	Index 04/03
Income from infrastructure operation	CZK mil.	11,506	12,162	***)	***)	***)	0.95
Results of operation	CZK mil.	-825	-684	***)	***)	***)	1.21
Length of maintained and operated tracks****)	km	9,511	9,501	9,499	9,444	9,365	1.00
– of which electrified	km	2,982	2,943	2,926	2,893	2,843	1.01
– of which double- and multiple-track lines	km	1,866	1,845	1,875	1,878	1,929	1.01
Total length of maintained tracks	km	16,157	16,187	16,322	16,370	16,417	1.00
Train kilometres (all operators)	thousands of train km	145,857	146,025	139,748	141,226	139,996	1.00
Gross ton kilometres (all operators)	millions of gross ton km	50,553	52,044	51,207	53,856	55,054	0.97
Axle kilometres (all operators)	millions of axle km	4,262	4,404	4,351	4,583	4,658	0.97
Number of monitored trains		4,789,585	4,783,830	4,573,846	4,459,136	4,388,314	1.00
Adherence to the schedule of train traffic for the monitored trains*****)	%	91.7	90.4	89.9	90.3	90.7	1.01
Time delays of higher-quality trains	min/100 train km	2.1	1.4	2.4	3.5	4.5	1.50

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

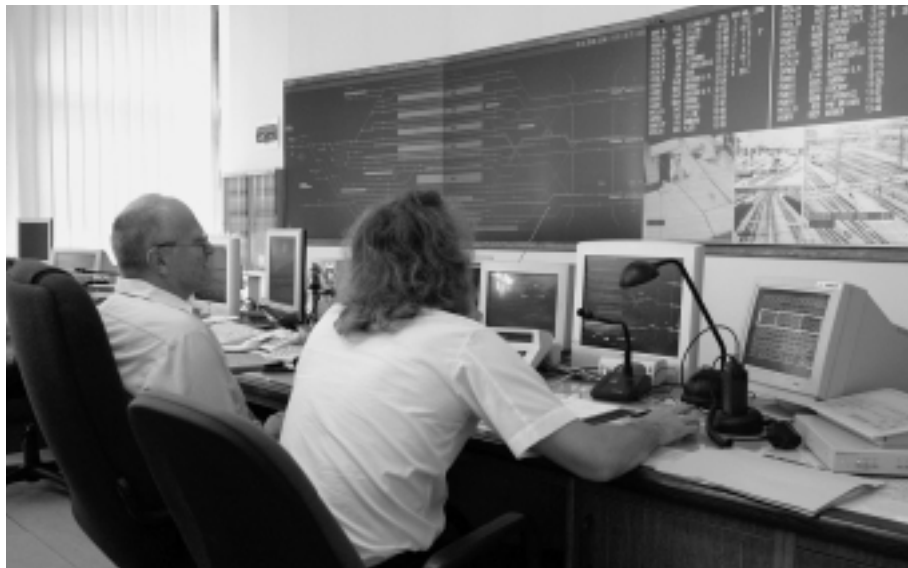
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****) Income from and expenses on infrastructure operation were included in the passenger and freight transport product until 2002.

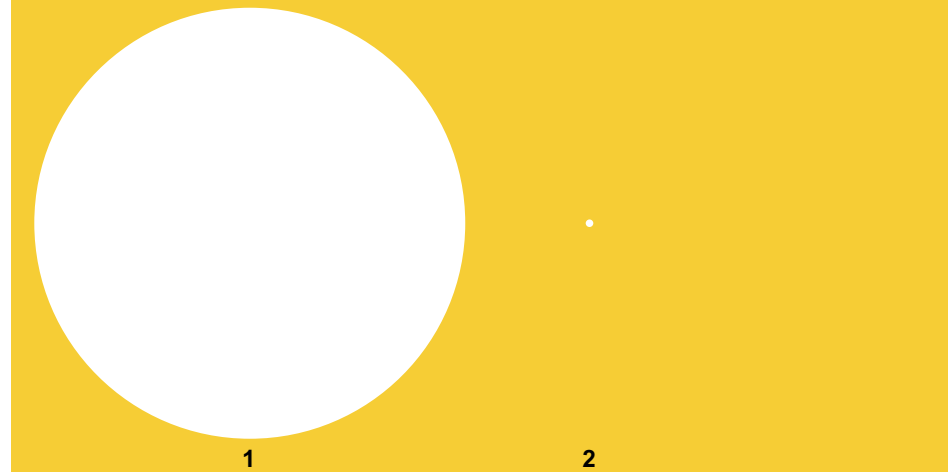
*****) The length of the operated tracks within the network was further specified during the monitored periods due to the transition from the measuring in hectokilometres to km. Accordingly, the aggregate lengths of tracks differ year-on-year.

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

Share of other Train Operators in Train Movements on the Lines Operated by ČD, a.s. on a Contractual Basis



- 1 České dráhy, a.s. 99% – 144,717 thousand train kilometres
- 2 Other carriers 1% – 1,140 thousand train kilometres



> Report on the Company's Activities and Assets

Tangible Fixed Assets of České dráhy, a.s. as of 31 December (Selected Items)

Ratio	Unit	2004	2003	2002*)	2001*)	2000*)	Index 04/03
Rail vehicles							
Direct current electric locomotives	pcs	541	546	546	586	634	0.99
Alternating current electric locomotives	pcs	245	247	247	247	248	0.99
Electric two-system locomotives	pcs	148	145	145	145	145	1.02
Diesel locomotives**)	pcs	1,347	1,373	1,380	1,519	1,666	0.98
Steam locomotives	pcs	22	22	22	21	20	1.00
Diesel railcars	pcs	785	791	791	793	797	0.99
Electric trainsets	pcs	100	95	87	87	86	1.05
Freight wagons	pcs	35,023	35,615	36,389	39,699	47,768	0.98
Passenger and luggage coaches	pcs	4,549	4,675	4,726	4,850	5,006	0.97
Railway substructure and superstructure							
Total length of lines**)	km	6	7	9,499	9,444	9,365	0.86
Electrified lines**)	km	3	3	2,926	2,893	2,843	1.00
Total construction length of tracks	km	621	606	16,322	16,370	16,417	1.02
Number of turnout units***)	pcs	2,801	2,708	28,666	28,989	29,303	1.03
Number of bridges	pcs	7	7	6,677	6,678	6,688	1.00
Total length of bridges	m	117	117	145,044	144,743	144,716	1.00
Communication equipment							
Number of telephone switchboards	pcs	450	409	445	461	559	1.10
Of which electronic switchboards	pcs	250	231	181	189	115	1.08
Long-distance cabling	km	6,550	6,524	6,494	6,498	8,146	1.00
Of which optical cables	km	1,989	1,270	846	841	535	1.57
Public address systems	pcs	8	8	974	974	974	1.00
Overhead circuit tracks	km	1,513	1,513	1,700	1,700	2,247	1.00

*) The figures for 2000 to 2002 apply to the state organisation České dráhy. Therefore, some of the figures may not be comparable with the data for 2003 and 2004 relating to the operation of České dráhy, a.s. as one of the two legal successors of the state organisation.

***) The length of the operated tracks within the network were further specified during the monitored periods due to the transition from the measuring in hectokilometres to km. Accordingly, the aggregate lengths of tracks differ year-on-year.

****) The figures for 2000 do not include data for Divize obchodně-provozní, o.z.



> Report on the Company's Activities and Assets

Other Areas of Operation

Asset Trading

In line with the approved "ČD Strategy of Asset Trading" and the "Provision of ČD's CEO on Review of Relations in the Area of Asset Trading at ČD", we performed several specific engagements, namely in the following areas:

- > pending relations affecting property rights to the real estate where ČD's ownership has not been clearly defined;
- > Accelerated completion of the registration of ČD's assets in the Real Estate Register in compliance with Act No. 77/2002 Coll.; and
- > Acceleration of the process of negotiating disposals of redundant immovable assets.

In order to implement the property policy and to become accustomed to the current trend in asset valuation for the purposes of sale, exchange and lease applied customarily by banks and real estate agencies, purchase prices are based, upon the approval of the Supervisory Board, on the market values, i.e. on arm's length prices. In the case of leases of ČD's immovable assets, the prices are based on the "ČD Price Map" which assumes ongoing updates following the market principle. The principle will be adhered to in cases when there is no other suitable valuation method available for our business activities. The aggregate amount of the purchase prices approved by the Supervisory Board was CZK 203,780,783 as of 31 December 2004.

As of 31 December 2004, 97% of ČD's immovable assets were entered in the Ownership Deed held in the Real Estate Register.

Following the negotiations of the management of ČD and SŽDC, movable and immovable assets of ČD were identified which will be used to settle ČD's payable to SŽDC. For this purpose, the "Provision of ČD's CEO on the Sale of Selected Assets of ČD to SŽDC and on the Purchase of Selected Assets of SŽDC by ČD" was approved.

As of 31 December 2004, we have entered into a total of 12,824 contracts for the lease of non-residential premises and land of CZK 388 million.

We entered into a general contract with the winning bidders participating in the two-level tender for the provision of public services of the individual categories in late 2004. We will execute partial contracts for the lease of railway stations included in the ČD network, with the exception of the following stations: Prague Main Station, Prague – Masaryk Station, Karlovy Vary and Mariánské Lázně.

Through the specialised Asset Trading department, we exercise direct control over real estate projects such as the railway stations' turnaround, preparation and implementation of selected real estate projects, e.g. in Prague and Brno, the right for inspection of all administrators of ČD's immovable assets in the area of asset trading and administration, and preparation of quotes of redundant assets for the purposes of their disposal on the real estate market.

The main purpose of the activities of the joint enterprises is the turnaround and development of real estate held by ČD in the form of real estate projects. The projects focus namely on new utilisation of ČD's real estate which would generate higher income and require lower expenses. Turnaround projects include introduction of new functions of the existing real estate, new services and activities provided to our clients by third party entities under business contracts. Establishment of joint ventures is one of the methods employed in the implementation of the turnaround projects. We are engaged in the following joint ventures:

- > CD CENTRUM, a.s.; Palace CD project, development of the Brno Main Station area;
- > RailReal a.s.; development of the Praha – Žižkov freight station area;
- > CR City a.s.; Churchill Square project, Prague – premises on Italská and Seifertova streets;
- > Masaryk Station Development, a.s.; a joint venture established on 30 June 2004 for the purpose of the turnaround and development of the Masaryk Station area in Prague; and
- > ČD Reality a.s.; a joint venture established on 21 July 2004 for the purpose of the implementation of turnaround projects at ČD's railway stations.



> Report on the Company's Activities and Assets

Marketing Activities

Marketing communication of our company involves a wide range of activities with a single goal: promote the sale of goods and services offered by the Company in an effective manner. Marketing communication includes, in addition to media advertising, television, press, radio and outdoor advertising, public relations, direct marketing, sale support, fairs and exhibitions, Internet, sponsoring and other forms of "under the line" communication.

Our marketing communication followed the Marketing Activity Plan in 2004. Apart from the "On Tracks" TV program, we divided our marketing activities into three groups based on the underlying themes:

- > Product campaigns promoting passenger and freight transport;
- > Fairs and exhibitions;
- > Promotional events.

Product campaigns promoting passenger and freight transport

In January 2004, we carried out two sizable product campaigns to support the SONE+ weekend offer and NOČNÍ SPOJE (Night Trains) within the passenger transport segment. Both the campaigns are characterised by uniform graphic layouts in all printed materials. The purpose of the layout was to provide for increased awareness of both our current and prospective customers. Thus, passengers have a chance to learn about what is new in the business not only from the classical fliers and posters, but also from city light boxes, advertising on tickets, promotion in press and banners on Internet sites, currently limited to the www.cd.cz site. In the second half of 2004, we held a freight transport campaign focused on term transport offered under the name "TermínCargo" (Just-in-Time) whereby customers can specify the required date of delivery.

Fairs and Exhibitions

We consider our participation in fairs as an excellent opportunity for informing and communicating with the professional public. They provide a chance for face-to-face communication and personal dialogue, in addition to presentation of services. These are also the reasons why we take part in fairs and exhibition locally as well as in foreign countries. Mention should be made of fairs held in Brno, Bratislava, Zurich, Köln am Rhine and Moscow.

Presentation Events

Apart from traditional advertising activities, we are regular participants in miscellaneous events. With our presentations during such events we strive not only to support those projects, but also to improve the public's perception of railways that render not only transport services, carrying people to work and school, but also offer a wide range of other supplementary services. In early 2004, we held a "ČD Cargo Conference" in Luhačovice where we presented our business and tariff policy. Our Company was also involved in the following events: Ice Hockey World Championship (24 April to 9 May 2004, Prague and Ostrava), Bambiriáda (open-air competitions for children, 20 to 23 May 2004), International Festival of Children and Youth Films (30 May to 5 June 2004, Zlín), Znojmo Grape (a festival of TV and radio shows on gastronomy, 6 to 9 September 2004), Railway Day (25 September 2004), and Bethlehem Light (traditional distribution of the candle light brought from Bethlehem at Christmas time). The above is only a short summary of the whole wealth of activities in which we participate. In order to improve our communication with clients in the freight transport segment, we held several sports and social events such as the ČD Cargo Cup 2005, Social Christmas Night at the Jiří Grossmann Theatre, and a tennis championship.

Research and Development

The research and development activities performed by Czech Railways in 2004 corresponded to the trend in this field in the previous years and focused especially on increasing safety and speed, quality and availability of railway transport services. A significant part of these activities were focused on supporting regional passenger transport by incorporating railways into the system of provision of transport services in major dwellings and their suburban areas. With respect to the accession of the Czech Republic to the European Union, we continue to deal with issues relating to technical harmonisation and interoperability in the railway sector.



> Report on the Company's Activities and Assets

Unlike in previous years, we substantially increased the extent to which we use external resources to finance engagements relating to technical development. In cooperation with SŽDC, we were successful in applying for a contribution totalling CZK 6,971,000 from the State Fund of Transport Infrastructure for studying purposes and expert activities. The contribution was used to finance the following technical development engagements:

- > Transport safety in railway tunnels;
- > Database of the sources of noise in the railway infrastructure;
- > Territorial and technical study of modernisation and electrification of the Mladá Boleslav – Turnov section;
- > Integration of the railway into the system of Prague regional railway lines and project documentation to support the territorial solution pertaining to new passenger transport terminals;
- > Application of the European train-running control – support of the ETCS pilot project;
- > Concept study of the railway transport in the Karlovy Vary junction; and
- > Territorial and line study of the Hlučín–Ostrava section.

We initiated the call for themes of the partial program of the Czech Transport Ministry within the National Research Scheme and participated in the processing of applications and selection of solution providers for these themes. The themes primarily relate to support of logistics and combined transport. The projects approved as part of the scheme will be implemented during 2005 and the aggregate contribution for their implementation is almost CZK 20 million.

We managed to maintain the volume of the technical development engagements on a level similar to the previous years by means of the above-mentioned projects and reduced the costs of their implementation. Other technical development engagements included studies supporting the rationalisation measures adopted with respect to operational management, operational safety and incorporation of ČD into logistics systems.

We also proceeded with activities relating to support provided in applying for accreditation and admission as the national registration body – a holder of international certificates for the issue of technological documents in the EU and other documentation needed to obtain permits for the operation of vehicles as well as other certificates pertaining to railway transport. From the long-term perspective, this approach will lead to reduction of costs and time spent on legislative and technological processes in applying for local and international certificates for newly developed technological facilities necessary for the operation of railways.

Basic trends in the area of research, technical development and standardisation include close cooperation with international entities. We maintained our contacts with international organisations (UIC, AEIF, CER, etc.) and built new contacts with other organisations to incorporate our business activities into international and multimodal programs which are often supported by the European Union in both political and economic terms.

One of the essential system supports of research and development in Europe are the Framework Programs that have entered the 6th five-year cycle. Our company was involved in the 4th Framework Program and participated in the APOLO – Advantage Position Locator project. Within the 5th session of the programs, our company submitted proposals for participation in international consortia of solution providers targeted at specific issues. Consequently, ČD became involved in the following projects of the 5th Framework Program under the financial support of the EU:

- > INTERFACE (Improvement of iNtermodal TERminal Freight operation at border Crossing tErminals); and
- > FACT (FAst and Comfortable Train).

During 2004, we were involved in the work of consortia of solution providers within some of the projects of the 6th Framework Program and, through Výzkumný ústav železniční, o.z. (the Railway Research Institute), in the “Network of Excellence” EURNEX, an acknowledged research network interconnecting over 60 institutions (universities and research institutes from all over Europe) dealing with railway issues. In late 2004, the implementation of the following projects commenced with ČD participating as a partner of the consortia of solution providers:

- > InteGRail – a four-year project focusing on detection and transmission of information on emergency conditions of vehicles and infrastructure and optimisation of the maintenance and repair activities; and
- > EUROPAC – European Optimised Pantograph Catenary Interface – a project assisting in setting the basic parameters of the coupling between the trolley wire and the collector.



> Report on the Company's Activities and Assets

We will keep it one of our priorities to remain involved in the consortia in connection with the calls for projects, namely in the areas that will need to be addressed within ČD, whether drawing the EU resources or not.

As a legal successor or the founding member (the former ČSD, Czechoslovak Railways), we continued in participating in the work of the International Railway Union (UIC), the primary international railway standard setter, as a member of the organisation's bodies. Through our representatives, ČD will keep influencing the trends in international railway research and development, directing these activities into the fields of the Company's interests as defined in its technical and business policies.

We will further strengthen the activities relating to standard setting on the EU level. ČD has nominated its representatives in AEIF (European Association for Railway Interoperability) which will provide an opportunity for continued influencing of the European standard setting process in connection with technical, safety and organisational legislation applicable to railways as well as environmental legal standards that are always a sensitive issue, both politically and economically.

Informatics

In building information systems in 2004, we focused our attention and efforts particularly on the following areas:

- > Support of the rationalisation measures;
- > Support of the process and product management;
- > Enhancement of the client-oriented approach; and
- > Consolidation of the operation of network-wide applications.

Dramatic changes were made in the field of IT support provided to ČD's passenger transport segment as a consequence of the completion of the implementation of the key functions of the new on-line selling system PARIS and its expansion into the majority of railway stations. We purchased 500 new portable passenger ticket offices (POP) for conductors and 1,120 chip card scanners to supplement the equipment as one of the steps of the corporate chip card program. Czech Railways were actively involved in the IDS ticket validation systems in Brno, Plzeň and in Eastern Bohemia. Standardisation of the chip card based ticket validation system in the Czech public transport, the process initiated by ČD in 2004, is one of the key issues for us.

In the freight transport segment, we launched test operations of the Central Wagon Control core facility. The optimisation module of wagon balancing employs a new line matrix. We developed tools for wagon supervisors. Our significant achievements included the launch of the freight transport web site cdcargo.cz, the key information channel for ČD Cargo's customers. The web site summarises data which was scattered everywhere until the launch and will gradually incorporate the originally separate applications. "Spona" (connection search) and Wagon Catalogue are new functions on the web.

With respect to operational management of train circulation, we modified the existing SENA and ISORŮ systems to accommodate to the new conditions resulting from EU accession, i.e. completion of functions for sale and registration of the saturation of the infrastructure's capacity.

In the context of the railway line's functionality, we continued developing application software based on Internet technology. We initiated resolving of the graphic support of the passport information systems with gradual implementation in the operating systems. We newly defined the needs of the operating information system and commenced preparatory work for the development of a uniform system.

The development of our SAP R/3 accounting information system complied with the Plan for the Development of the SAP R/3 system during 2004 and we met the stipulated deadline. The development of the individual modules was initiated, the EDM component (Administration of Power Data) was the first to be finalised. The regular operation was started on 1 July 2004.

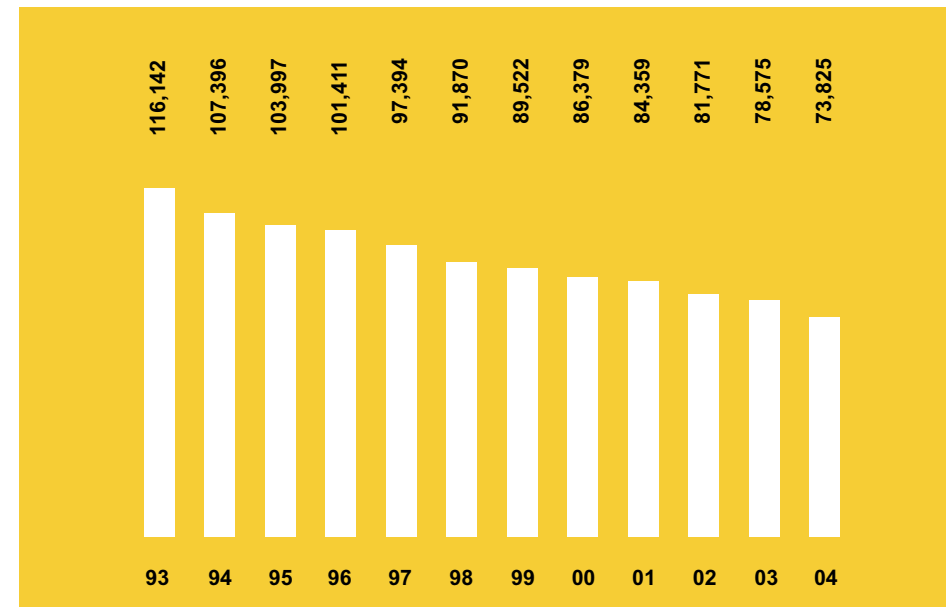


Employment Policy and Social Program

During 2004, Czech Railways continued to implement a number of measures aimed at enhancing its economic position and performance. Human resources management involved the on-going optimisation of the number of staff aiming at improving age and professional levels while maintaining staff effectiveness.

Czech Railways entered into contracts with selected training schools, high schools and universities for co-operation in the field of student education to attract new young staff members. Czech Railways has entered into contracts on cooperation with eight universities and eleven 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.

Development of the Average Headcount of ČD, a.s. Recalculated to Full Time Employees in 1993 to 2004



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 4,750 persons to 73,825. The physical headcount was 71,995 as of 31 December 2004 which is a decline of 5,561 year-on-year.

> Report on the Company's Activities and Assets

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 Program of Czech Railways for 2001–2005, approved by the Czech government, in 2004. The program comprises the following issues above the scope of legal regulations:

- > Provision of severance payments in connection with the transformation under Ministerial Order 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 and netted of any other payroll costs amounted to CZK 18,463 at Czech Railways in 2004. The nominal increase from 2003 was 5.4%.

In line with the effective legal regulations, the Company used the Social Fund of Czech Railways during 2004 in favour of ČD's employees, namely for the following purposes:

- > Improvement of the working environment;
- > Contributing 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 for the year 2004.

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 a possibility of supplementary provision of the above service to external entities. The railway healthcare systems consists of health care on both out-patient and hospital levels.

The railway hospital in Prague and five railway health centres (in Plzeň, 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 Relations

In the time immediately prior to the accession of the Czech Republic to the European Union and particularly after EU enlargement, 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 structures and in the new environment to be established after full application of European railway legislation, by being involved in operations of international organisations and successfully developing bilateral and multilateral relationships.

Czech Railways was involved primarily in the activities of two major international railway organisations: the International Railway Union (UIC) and Community of European Railways (CER).

ČD's participation in the Community of European Railways (CER) was evidenced namely in promoting ČD's opinions in documents of pan-European importance and validity, which were accompanied with active lobbying with members of the European Parliament after EU accession intended to mitigate the adverse impact of certain measures within the prepared 3rd railway package on freight transport.

Within the UIC, the Company was successful in defending the existence of the "Mission East-West" which has been chaired by Czech Railways since 1999, and its incorporation into the new UIC structure established after the reform of the organisation. The "Mission East-West" will thus remain a powerful tool assisting in the expansion of UIC's influence further to the East which would move the border of the European integrated railways system. This would contribute substantially to improvements in passenger transport between the EU countries and remote parts of the continent.

As a member of the European Association for Railway Interoperability (AEIF), Czech Railways defended its views and efforts aimed at harmonic development of the entire Czech railway system, with the help of ČD's representatives in the association's top bodies and on the level of the task groups for the processing of technical interoperability specifications for the purposes of conventional railway transport.

The involvement of Czech Railways in the Organisation for the Cooperation of Railways (OSŽD) was of no less enthusiasm. ČD chairs the 5th OSJD Commission for Technical Issues in this term of office.

Czech Railways was accepted as a member of the International Coordination Committee for Trans-Siberian Transport in September 2004. Membership in this organisation will enable the Company to strengthen its position in the freight transport market, namely with respect to transport of merchandise between Europe and the Far East.

In the area of bilateral relations, we 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 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 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 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.



> Report on the Company's Activities and Assets

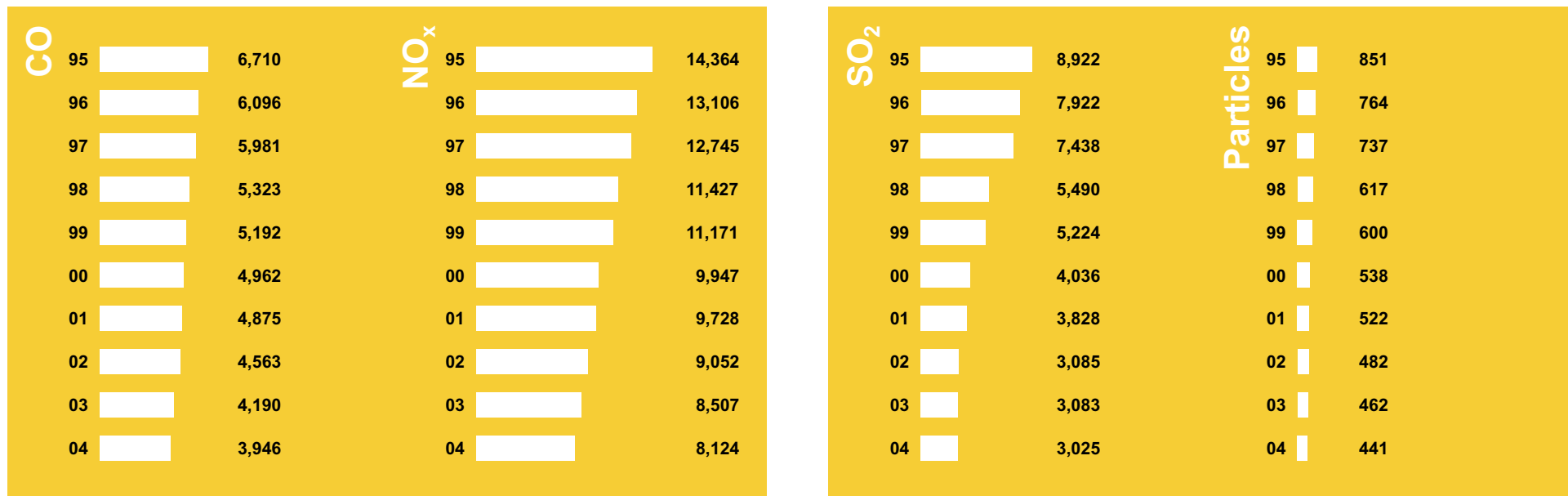
Czech Railways pays substantial attention to environmental protection. Its environmental efforts are focused on three areas:

- > 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.

ČD has been making every effort to reduce its consumption of potable and service water, air pollution and noise. Greenery along the tracks is also being cared for. 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. We continued to implement the ISO 14001 environmental management system in 2004. In late 2004, the system was re-certified at the Liberec railway junction composed of the Rolling Stock Depot, the railway station and the Infrastructure Administration (SDC).

Year	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
CO (tons)	3,946	4,190	4,563	4,875	4,962	5,192	5,323	5,981	6,096	6,710
NO _x (tons)	8,124	8,507	9,052	9,728	9,947	11,171	11,427	12,745	13,106	14,364
SO ₂ (tons)	3,025	3,083	3,085	3,828	4,036	5,224	5,490	7,438	7,922	8,922
Particles (tons)	441	462	482	522	538	600	617	737	764	851

The Development of Air Pollution Caused by Railway Transport (tons)



In 2004, the operating costs spent on environmental protection totalled more than CZK 433 million, of which CZK 129 million on greenery conservation. The costs spent on environmental protection related to the contract with SŽDC amounted CZK 139.5 million. ČD also cut the medium sources of air pollution by eight and the technological sources were reduced by four. Waste production went down by 9,000 tons year-on-year.



> Financial Position

Balance Sheet

In the period from 31 December 2003 to 31 December 2004, the value of fixed assets of the Company grew by CZK 2.49 billion reaching CZK 38.73 billion, i.e. 81.9% of total assets. Current assets which are composed of inventory, receivables and current financial assets decreased by CZK 0.47 billion to CZK 8.55 billion, i.e. 18.1% of total assets in the period from 31 December 2003 to 31 December 2004. The value of the Company's equity dropped by CZK 0.74 billion to CZK 37.58 billion, i.e. 79.4% of total equity and liabilities. The Company's share capital was CZK 20 billion, i.e. 42.3% of total equity and liabilities. Liabilities increased by CZK 2.77 billion to CZK 9.60 billion, i.e. 20.3% of total equity and liabilities in the monitored period.

Investing Activities

The plan of the use of resources for the acquisition of fixed assets (investments) followed the approved Business Plan of Czech Railways for the year ended 31 December 2004 and was set at CZK 1,391.4 million.

Liabilities from SFDI of the total investment activity plan for 2004 were stipulated at CZK 956.2 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 5,246 million was designated for the settlement of new and upgraded rail vehicles for passenger and freight transport.

In 2004, investments were drawn in the amount of CZK 5,441.7 million, i.e. 71.7% of the annual plan.

		2004	2003	2002*)	2001*)	2000*)
Total investments	CZK mil.	5,441.7	2,683.1	17,372.7	16,152.7	15,693.6
of which: passenger transport	CZK mil.	2,488.8	1,081.6	743.2	930.2	1,871.0
of which: freight transport	CZK mil.	289.5	4.7	509.3	351.4	267.0
of which: infrastructure	CZK mil.	2,118.3	1,191.3	15,604.0	14,286.5	12,866.4
of which: other	CZK mil.	545.1	405.5	516.2	557.7	689.2
Investment grants	CZK mil.	1,149.6	1,053.3	10,784.1	5,822.4	6,195.0
Internal investments	CZK mil.	4,292.1	1,629.8	6,588.7	10,330.3	9,498.6

*) The figures for 2000 to 2002 apply to the state organisation České dráhy. Therefore, some of the figures may not be comparable with the data for 2003 relating to the operation of České dráhy, a.s. as one of the two legal successors of the state organisation.



> Financial Position

Profit and Loss Account

The results of operations of ČD, a.s., for the year ended 31 December 2004 are composed of total sales and revenues of CZK 45,982 million and total expenses of CZK 46,603 million including accounting depreciation of CZK 2,492 million. Compared to the business plan, sales and revenues were lower by CZK 423 million, i.e. the plan was met at 99.1%. Total expenses were lower by CZK 800 million, i.e. the plan was met at 98.3%.

Funding

The funding of Czech Railways in 2004 was provided from the finance obtained from the Company's activities, from grants for covering the demonstrable loss from the public service obligation, for capital construction, for repairs and maintenance of the transport route and from loans guaranteed by the government.

The contribution to compensate for the operator's loss on the operation of public passenger railway transport, the contribution for the operation of combined transport and the compensation of the loss on the introduction of the student fare were provided to Czech Railways 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 Czech Railways by the State Fund of Transport Infrastructure and the Railway Infrastructure Administration during 2004 on the basis of the contracts entered into.

Further, Czech Railways 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

In 2004, the Company used hedging derivatives to a limited extent. We do 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 "natural hedging" for several years. This means that regular monthly income of ČD denominated in foreign currencies (namely in EUR) are translated into CZK only after the settlement of all expenses in EUR in the relevant month. 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 2004, the share of EUR expenses in EUR income was approximately 18.5% but is expected to grow substantially due to the initiation of repayment of investment loans denominated in EUR;
- > Hedging against the interest rate risk involves certain difficulties as 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 or exchange rate risk. Interest rates are calculated on the floating basis at EURIBOR + margin.



> Financial Position

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

Price risk:

- > During 2004, regular passenger fare and the amount of the reductions prescribed by the government and provided in the form of special fares remained unchanged. The level of fares in passenger transport is regulated. The Contract for the Public Service Obligation applicable to passenger transport was executed with the government and regional authorities in November 2004 and in February to October 2004, respectively. The regions assumed funding of a portion of the loss on the public service obligation as a special purpose grant in 2004;
- > Prices applicable to freight transport are established by reference to the "Pricing Policy in ČD's Freight Transport" approved by ČD's Board of Directors. The fundamental principle of price negotiating is the stabilisation of prices effective in the previous year with a maximum possible increase in the prices and volume. Our prices often need to be adjusted to correspond to the demand for transport services in order to be able to compete with road or other railway carriers;
- > As acquisitions, reconstruction and modernisation of vehicles and their funding from external resources are usually associated with engagements exceeding specified limits, we adhered to the effective wording of Act No. 199/1994 Coll., the Procurement Act, to optimise the prices before 30 April 2004. Since 1 May 2004, we have followed the provisions of Act No. 40/2004 Coll., the Procurement Act. The prices established by reference to the above statutes 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 a price for repairs and reconstruction, we also use 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 which makes an assessment of the liquidity and cash flow development on a monthly basis as compared to the income and expense plan and to the approved "ČD Business Plan" for the current period. These analyses serve as a basis for decisions on the settlement of payables, drawing of overdraft loans, etc.;
- > An overdraft facility of CZK 400 million is available with Komerční banka, a.s. (KB) in case of a sudden drop in cash flows. The Company did not draw the overdraft loan in 2004 as it had sufficient available resources to cover the Company's payables within the due date;
- > For the purposes of a short-term revaluation of cash on current accounts maintained by KB, we use the benefits of cash pooling and short-term placements of income from transport on term deposit held at ČSOB, a. s., Praha.

Credit risk:

- > The Company carries out regular weekly monitoring of receivables and payables by the individual firms and default period during the whole fiscal year. Special attention is paid to receivables greater than 60 days past due;
- > In connection with the above, we use mutual offsets of receivables and payables, with special attention paid to receivables greater than 60 days past due, to enhance liquidity and reduce the amounts receivable and payable.

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



> Anticipated Development, Goals and Plans

The strategic development of Czech Railways is primarily driven by effective internal functioning of the organisation. The activities carried out during the first two years of ČD's existence as a joint stock company involved initiation and implementation of complex processes of internal transformation aimed at incorporation of the standard entrepreneurial principles into the Company's management system. We will continue improving the Company's management in the following years.

Our firm'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). We 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 Czech Railways, the railway market has been served by an important group of third carriers since 1995, the competitiveness of whom is gradually growing. Moreover, since 1 May 2004, 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).

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 Company's bodies (Board of Directors, Supervisory Board, Steering Committee) approved a proposal "Strategic Development of Czech Railways" in late April early May 2004. This document serves as a tool for strategic development of the Company and its strategic management. In addition to the corporate strategic management principles, the document defines a ten-year vision of ČD and specifies the development strategy for the period of five years. We update the Company's strategy on an ongoing basis so that it respected the development of the external conditions and the progress made in terms of ČD's internal restructuring.

The strategy of Czech Railways is built on three pillars of the Company's development from the medium-term perspective:

- > Active business policy;
- > Integrated reduction of a wide range of expenses (with an emphasis on the key expense item: staff costs) and implementation of internal changes in the Company (re-engineering, introduction of process and product management, economisation of activities); and
- > Accommodation of the Company's structure to the development of the external environment involving the transition to a strategic controlling holding, thus creating conditions for the Czech Railways' incorporation into the multinational and regional structures and for the strengthening of the Company's capital.

Each of the above described principles is a necessary, rather than sufficient, condition to be met in order for Czech Railways to maintain its position on the market. The business strategy of the Company is therefore based on the concurrent implementation of all three principles.



> Anticipated Development, Goals and Plans

Passenger Transport

The passenger railway transport segment is divided into the following products:

- > Long-distance transport (high quality, standard quality); and
- > Regional transport (fast and inter-regional, suburban and local transport).

We will strive to provide for a competitive set of services whereby all crucial locations both inland and cross-border will be connected. Our efforts intended to defend our 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.

ČD's performance in the regional passenger transport segment will be dominated by the discharge 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 Czech Railways is to build its business activities in this segment on cooperation with the entities ordering public services – the Czech regions. ČD is also aware of the fact that its chances in fighting multinational competitors are very limited (ČD does not have modern rolling stock, namely swift low-capacity and efficient units) and its intention therefore stems from broader cooperation and establishment of joint ventures with other entities, including potential competitors, which would render services of a more comprehensive nature. It will also be easier for such enterprises to get involved in integrated transport systems built in the individual regions.

One of the prerequisites of a successful operation is modernisation of the rolling stock. In this context, we would like to employ modern tools of structured funding such as leases, EU funds, purchase of vehicles through a rolling stock pool or combinations of the available financial instruments. In the renewal of the rolling stock to be used for public passenger transport, we will strive to establish condition similar to those applicable to the renewal of rolling stock used in municipal public transport and public bus transport.

We find information technologies of a great importance as they enable monitoring marketing data on customers and documenting expenses on the performed activities in a reliable manner. In this way, we wish to create conditions for the solution of the issue of funding passenger transport by customers. The resolution of this issue will contribute to enhancement of the competitors' interest in getting involved in this market segment.

With respect to standardisation of the passenger ticket validation systems in public passenger transport, we will pay significant attention to the introduction of the "National Transport Card".

Freight Transport

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

In terms of business offering, we 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 consignment's journey between the consigner and the consignee. 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. These plans will be connected with changes in the client contact process and handling of clients. Business relations with clients as well as segmentation of the freight transport market will be based on the types of carried commodities (e.g. solid fuel, timber and paper products, building materials, etc.). Trading activities will be strictly separated and the system will be enriched with progressive technologies to enable communication with customers and implementation of contractual relations through a trade web interface where clients will find all necessary services.



> Anticipated Development, Goals and Plans

We consider intermodal traffic a highly perspective business segment within freight transport. Intermodal traffic is experiencing a boom throughout Europe and its volume is increasing. We prepared a separate strategy for the purposes of the implementation of our intention to increase the share of Czech Railways in the intermodal transport market. Harmonisation of the conditions between the transport modes and creation of a public terminal network for intermodal traffic are vital prerequisites for the development of the intermodal traffic systems.

We will continue rationalising the individual activities (collection/delivery, transport of trains among marshalling yards, client handling supported by information technologies) in order to reduce expenses on the operations.

As to the freight transport segment, the intention of Czech Railways is to get involved in multinational alliances engaged in the execution of pan-European transport in Central Europe as is customary with other national railway train operators who strive to control the market this way; otherwise, ČD might be pushed off the market by multinational competitors. Following on the intention to privatise Železničná spoločnosť Cargo Slovakia, a.s., risks arising from the process and the opportunities for ČD to participate in the process will be reviewed in detail.

Modernisation of the rolling stock aimed at modification of its structure such that it would enable fulfilment of our client's requirements.

Railway Infrastructure

ČD performs activities on the railway infrastructure based on a three-year contract with the state organisation Railway Infrastructure Administration (SŽDC), which exercises the owner's rights of the state owned infrastructure, in the following scope:

- > Provision for the functionality of the railway infrastructure (i.e. maintenance of the railway infrastructure); and
- > Operation of the railway infrastructure (i.e. control of the train movements on the infrastructure).

The above-mentioned contract was entered into for the period 2003 to 2005. In 2005, intensive negotiations are planned between ČD and SŽDC on arrangements for further years. Since providing for these activities is one of our business priorities, it is in the Company's interest to have a contractual relationship established for a period exceeding three years. This will enable conceptual development of the railway infrastructure, long-term promotion of business relations and provision for return on investments of the railway operator in specific areas (development of information technologies and human resources). Our intention is also to implement process management and to consolidate the departments responsible for operation of railway lines within ČD's structure so that synergic effects are reached on both economic and organisational levels.

Assisted by SŽDC, we implement rationalisation projects leading to minimisation of expenses on the railway infrastructure. These projects cover the areas of operational management and maintenance.

The development and modernisation of the railway infrastructure within the responsibility of SŽDC should comply with the requirements of the transporters and the interest of the government and regions in the development of a particular territory. Intentions in this field will have the form of common priorities which, from the point of view of Czech Railways, include modernisation of the corridors and selected parts of the regional railway network. However, the development of the infrastructure also needs to be perceived on the pan-European level: it is vital to provide for needed interoperability with the European railway network which will enable a seamless transition of the vehicles used by other carriers. The technical and technological parameters will thus be standardised (e.g. through the European system of train safety equipment and ERTMS communication) to prevent future side-track of the national railway network to the very margin of the European transport space.



> Anticipated Development, Goals and Plans

Rolling Stock

The rolling stock department was substantially reorganised during 2004, being divided into two parts:

- > Operating section (eight rolling stock depots); and
- > Repair section (two vehicle repair shops).

The operating section will perform activities relating to operating treatment of tractive vehicles and passenger coaches and minor repairs that do not require the use of complicated technical equipment. This section will be optimised by reference to anticipated outputs and will be made ready for transition to the corporate verticals passenger and freight transport as one of the potential development options.



Our firm'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 repair section will provide for repairs of rail vehicles to the extent of a grand period inspection and will be optimised into a stipulated number of entities which will specialise in specific types of vehicles. This will create space for interconnection of selected private entities.



> Anticipated Development, Goals and Plans

Other Business Activities and Informatics

In addition to the major areas of operation, the Company is also engaged in supplementary and support activities as well as repair and maintenance. Our strategic intention is to perform these activities effectively. The activities (including assets needed for their performance) will be gradually transferred to subsidiaries to be independently engaged in the specified market areas. Capital companies are controlled entities subordinated to the unified control of the parent company.

The key strategic goal pertaining to informatics is the integration and standardisation of the information environment and consolidation of the technical infrastructure. Our plans include comprehensive safety solutions and rational use of IT. These steps will, together with smooth functioning of the SAP economic system, contribute to the overall improvement of the Company's management, thus strengthening its competitiveness.

Organisational Development

On the organisational level, Czech Railways will be transformed into a strategic controlling holding which proved to be the most suitable form of control, ex the experience of other national railway enterprises shows. The transition will be conducted in two stages in the medium-term horizon:

- > Transition of the repair, support and supplementary activities to the subsidiaries;
- > Launch of the subsidiaries' operation and performance of key business activities.

The first stage is being carried out and the first subsidiaries are designed and established (Traťová strojní společnost, a.s., ČD Generalvertretung GmbH, etc.). In 2005, the targeted concept of the holding structure of Czech Railways will be specified as part of the second stage. Further, a timetable for the concept's completion will be developed, the political consent of the Czech Government will be obtained and the organisational development of Czech Railways with respect to key business activities will be defined.

The year 2005 is the third year of the independent existence of the joint stock company České dráhy. As any other business, we need to think economically and minimise our costs to be able to compete in the market. For this purpose, we prepared a corporate strategy the performance of which will be the key tool of our Company's management. Future development of Czech Railways is based on economic, technical, technological and personnel capabilities of the Company and reflects the development of the transport market and legal environment in the Czech Republic and Europe. Our Company will go through many internal changes on its way to a profitable business established in the European transport area and these changes will enable us to reach this key strategic goal.





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> Statutory Bodies and Management of the Company as of 31 December 2004

Board of Directors

1 Petr Kousal > Chairman of the Board of Directors (since 28 February 2003) and Chief Executive Officer (since 4 March 2003), age: 50

A graduate of the Faculty of Operations and Economics of the Transport University in Žilina, Petr Kousal joined the then Československé státní dráhy (Czechoslovak State Railways) in 1978, starting as a train dispatcher and subsequently moving to management positions. In December 1993, Kousal was appointed Director of the Operating Division at ČD's headquarters and performed the office of Senior Manager of ČD's Operating Division in 1994 and 1995. In the same period, he acted in the capacity as the President of the International Organization of Time Schedules EGK/FTE within the International Railway Union in Paris. Kousal was the general representative of Czech Railways in various countries from 1996, Vienna being his last post. On 28 February 2003, he was appointed Board Chairman of ČD by ČD's Supervisory Board. On 4 March 2003, he was appointed Chief Executive Officer of Czech Railways.

2 Josef Bazala > Director (since 29 May 2003) and First Deputy CEO (since 26 March 2003), age: 48

Josef Bazala graduated from the Faculty of Operations and Economics of the Transport University in Žilina majoring 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 as ČD's CEO for a period of three months. From 1996 to 2003, Bazala was employed by SPEDI-TRANS Praha, s.r.o.

3 Ivan Foltýn > Director (since 25 July 2003) and Deputy CEO for Economics (since 1 July 2003), age: 60

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 two-year postgraduate study of railway weak-current systems. In 1969, he completed a two-year 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 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 responsible for transport segments and execution of the central government's duties and rights and from 1993 to 1997, he was a Deputy to the Transport Minister of the Czech Republic responsible for transport segments and execution of the central government's duties and rights. 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.

4 Jiří Kloutvor > Director (since 29 August 2003) and Deputy CEO for Trade and Operations (since 1 September 2003), age: 58

Jiří Kloutvor graduated from the Faculty of Engineering and Electrical Engineering of the Transport University in Žilina where he specialised in the operation and maintenance of railway vehicles and passed a special course on research preparation in transport techniques and technology. From 1970 he held various positions in engine operations within Czechoslovak State Railways (ČSD), his last post being the office of Manager of the Engine Operations of the Regional Headquarters of ČSD in Prague from 1990 to 1993. From 1993 to 1994, Kloutvor was Manager of the Technical Operations Head Office of České dráhy, s.o. and from 1994 to 1996 Deputy Director of the Railway Vehicles Department of the Trade and Operations Division of České dráhy, s.o. From 1996 to 2003, Kloutvor worked for a private company operating in the field of transport technology. Kloutvor has been employed by ČD, a.s. since 2003 where he took up the position of Head of the Office of the Senior Managing Director of the Trade and Operations Division. He held the position of Senior Managing Director of that division from 20 June 2003 to 31 August 2003, and became a Director of ČD, a.s. on 29 August 2003; he was appointed Deputy CEO for Trade and Operations on 1 September 2003.

Changes in the Composition of the Board of Directors

Mr Vlastimil Nešetřil terminated his membership in the Board of Directors as of 7 December 2004 and, with effect from 8 December 2004, he withdrew from the position of Deputy CEO for Infrastructure.



> Statutory Bodies and Management of the Company as of 31 December 2004

Supervisory Board

Vojtěch Kocourek > Chairman of the Supervisory Board, age: 45

Employment and Position: Transport Ministry of the Czech Republic, Deputy Minister. Participation in other bodies: Steering Committee of ČD, a.s.; Committee 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 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: 65

Partner at AŽD Praha s.r.o. and a member of the Supervisory Board of Traťová strojní společnost, a.s., Pardubice.

Tomáš Chalánek > Member of the Supervisory Board, age: 49

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

Karel Korytář > Member of the Supervisory Board, age: 56

Graduate of the Faculty of Electrical Engineering of the Technical University in Brno, specialised in electrical networks and the energy industry. In 1981, he completed postgraduate studies at the School of Economics in Prague, classes for management organizers. Senator, member of the Committee for the Economy, Agriculture and Transport of the Senate of the Czech Republic and member of the polling committee. Vice Chairman of the Supervisory Board of Středočeská energetická a.s.

Jiří Sedláček > Member of the Supervisory Board, age: 69

Graduate of the Engineering Faculty of the Czech Technical University in Prague. From 1958, Sedláček was engaged in repair activities of railway vehicles. From 1992 to 1997, he was the Managing Director of ŽOS České Velenice. He has performed the office of Chairman of the Board of Directors of ŽOS České Velenice CZ a.s. and member of the Supervisory Board of ŽOS České Velenice servis a.s. since 2000.

František Vašík > Member of the Supervisory Board, age: 58

Graduate of the Faculty of Operations and Economics of the Transport University in Žilina, specialized 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), Vice Chairman of the Board of Directors of DPO INEKON a.s. and Vice Chairman of the Management Board of the Association of Public Transport Enterprises of the Czech Republic.



> Statutory Bodies and Management of the Company as of 31 December 2004

Jaromír Dušek > Member of the Supervisory Board, age: 53

Graduate of the Jan Perner Transport Faculty of the University Pardubice, specialised in transport marketing and management. Chairman of the Railway Trade Union. Holder of a license for electricity production as an individual.

Jiří Kratochvíl > Member of the Supervisory Board, age: 58

Vice Chairman of the Railway Trade Union

Kurt Mužík > Member of the Supervisory Board, age: 61

First Vice Chairman of the Railway Trade Union, member of the Management Board of the Winged Wheel foundation.

Changes in the Composition of the Supervisory Board

Mr Tomáš Chalánek was appointed a member of the Supervisory Board with the immediate effect by a decision of the Steering Committee of 23 June 2004.

Mr Ludvík Hovorka terminated his membership in the Supervisory Board at his own request on 28 May 2004.

By its decision of 15 December 2004, the Steering Committee recalled Mr Jiří Sedláček from the Supervisory Board as of 31 December 2004. Simultaneously, Mr Miroslav Kapoun, deputy to the Parliament of the Czech Republic and Vice Chairman of the Economic Committee of the Chamber of Deputies of the Parliament of the Czech Republic, was elected a member of the Supervisory Board with effect from 1 January 2005.



> Share Capital, Securities, Shareholders

Issued Share Capital

Amount of subscribed capital

The Company's share capital amounting to CZK 20,000,000,000 is fully repaid. The share capital consists of 20 ordinary shares with a nominal value of CZK 1,000,000,000 each. CD stock takes the form of registered materialized securities with a negotiability limited to 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. All members are appointed in writing by the Government

Steering Committee of ČD, a.s. as of 31 December 2004

Antonín Tesařík, Chairman of the Steering Committee; First Deputy to the Transport Minister of the Czech Republic
Authorized 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
Authorized 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
Authorized by Resolution of the Czech Government No. 1166 as of 24 November 2004

Martin Pecina, member of the Steering Committee; Deputy to the Minister of Industry and Trade of the Czech Republic
Authorized by Resolution of the Czech Government No. 1166 of 24 November 2004

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

By Resolution of the Czech Government No. 1166 of 24 November 2004, the authorization for membership in the Steering Committee was terminated for Messrs Ján Dzvonič, Petr Forman and Josef Jarabica. In parallel, new authorizations for work in the Steering Committee were issued on 25 November 2004 with respect to Messrs Jaroslav Král, First Deputy to the Ministry of Regional Development, Martin Pecina, Deputy to the Minister of Industry and Trade, and Pavel Štalmach, Deputy to the Defense Minister.



> The Supervisory Board's Report

In 2004, the Supervisory Board of České dráhy, a.s. met at twelve regular meetings and one extraordinary meeting. 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 increase the holding of České dráhy, a.s. of the share capital of EUROFIMA. In addition, the Supervisory Board granted its prior consent to call a public tender for the supply of M7 ADS III motor oil in tank deliveries to ČD, a.s., to call a public tender for the supply of PC configurations for the renewal of information technologies (and also to select a provider of such services and to execute the relevant contracts), to call a public tender for the purchase of a portable ticket office, the purchase and modernisation of railway freight cars, and the procurement of supplies of light heating oil.

Furthermore, the Supervisory Board granted the Board of Directors, among other things, its consent to sell a defined portfolio of immovable assets as well as its consent to select a bidder in a public tender for the production and supply of seven direct-current electric trainsets of the 471 series. In addition, the Supervisory Board granted the Board of Directors its prior consent to call a public tender for a provider of energy services to heat the Bohumín operational unit and to execute a contract with the selected bidder; to call a public tender for the selection of a supplier for the cash-free taking of fuel used in the tenderee's company cars; and, to call a public tender for a blanket order to revamp ČD, a.s.'s tank wagons. The Supervisory Board also granted the Board of Directors its prior consent to call a tender for a provider of regular repairs of freight cars for a designated period, to call a public tender for the supply of break blocks for all depots of rail vehicles, to call a public tender for the best proposal to execute a contract whose subject-matter will be the purchase of obsolete cars for the physical disposal thereof. Finally, the Supervisory Board granted the Board of Directors its prior consent to execute all lease contracts for the lease of real estate owned by České dráhy, a.s. to individuals older than 18 years and to legal persons with a business licence valid in the Czech Republic for lease contracts entered into for a definite period of no more than 5 years, and 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.

At several of its meetings, the Supervisory Board tackled the high-level project and timetable for establishing subsidiaries, particularly the project to establish the subsidiary Traťová strojní společnost, a.s., due to the lack of investment funding, needed to renew the obsolete machinery for the maintenance of the railway transport route with respect to České dráhy, a.s., and needed for the entrance of a strategic partner. Furthermore, the Supervisory Board tackled the project of establishing the subsidiary ČD Generalvertretung GmbH, the subsidiary ŽELSPED, a.s. and the project of establishing the subsidiary VÚŽ, a.s. With respect to the discussed establishment of the subsidiary Traťová strojní společnost, a.s. with a 100% investment from České dráhy, a.s., the Board of Directors was granted the prior consent to contribute part of ČD, a.s.'s business worth CZK 391,490 million with a view to establishing Traťová strojní společnost, a.s., and, in addition, the Supervisory Board tasked the Board of Directors with informing the Supervisory Board of the activities of Traťová strojní společnost, a.s. on a quarterly basis. Furthermore, the Supervisory Board instructed the Supervisory Board's working group to inform the Supervisory Board regularly of the establishment and activities of subsidiaries at each Supervisory Board meeting starting from January 2005. The Supervisory Board also discussed the employee reduced-fare benefits provided by České dráhy, a.s. to its subsidiaries; the Supervisory Board approved the terms and conditions for maintaining the reduced-fare benefits for the employees of České dráhy, a.s. affected by the company's transformation.

The Supervisory Board paid particular attention to the Company Business Plan and the Company Development Strategy put forward by the Board of Directors. Having studied the submitted materials in detail, the Supervisory Board presented the Board of Directors with its comments and proposed amendments. The performance under the 2004 Business Plan was assessed on a regular basis. The Company's operating results for 2004 were also periodically monitored during the year by the Supervisory Board. 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 addressed, among other things, the use of railways for public passenger transport services in Prague, the progress and ensuring control in merging SŽT and DATIS in view of personnel, technology and economics; it also discussed the criteria in evaluating the top management of České dráhy, a.s. in 2004 and, subsequently, approved the final proposal thereof. It also tackled the concept of the railway transport route maintenance and repair, the preparation and rollout of the 680 series train unit, the progress of standard testing and the planned launch of these train units into operations; it also addressed the financing of the regular repairs of the 560 series train unit, the revamping of the 814 + 914 series diesel set and also granted the Board of Directors its prior consent to continue the revamping of 18 diesel railcars of the 852 and 853 series to the 854 series diesel railcars.

The Supervisory Board discussed the business plan for the establishment of the ČD Reality a.s. joint venture aimed at the turnaround of railway stations and granted the Company's Board of Directors its prior consent to invite a tender for partners in establishing the ČD Reality a.s. joint venture for the turnaround of railway stations. In addition, the Supervisory Board discussed the funding of the ČD, a.s. Business Plan for 2004 from borrowings for the purchase and revamping of freight cars and approved the borrowings of CZK 1.2 billion for the purchase and revamping of railway freight cars by way of leasing. Accordingly, the Supervisory Board also granted the Board of Directors its prior consent to call a public tender and accept the best leasing bid.



> The Supervisory Board's Report

The Supervisory Board also discussed the real estate management methodology and approved the relevant proposal thereof. The Supervisory Board addressed the development of the contractual relationship between Eurotel Praha, spol. s r.o. and České dráhy, a.s. The Supervisory Board also tackled the statistics relating to labour disputes with employees.

Furthermore the Supervisory Board discussed the asset management concept of ČD, a.s.; the Board of Directors was charged with monitoring the achievements in asset management on a quarterly basis and presenting them to the Supervisory Board. The Supervisory Board also addressed the issue of the CR-City a.s. joint venture with the equity involvement of ČD, a.s., and granted its consent to sell the land required in implementing the CR-City a.s. project; it also addressed the issue of the RailReal a.s. joint venture with the equity involvement of ČD a.s., and granted the Board of Directors its prior consent to sell the land required in developing the multifunctional centre. In addition, the Supervisory Board took an interest in the CD CENTRUM, a.s. joint venture with the equity involvement of ČD, a.s., and the Supervisory Board granted consent to sell the land required in implementing the project and to sell the existing equity involvement in the project.

The Supervisory was interested in the operations of and policy for rail vehicle maintenance and repairs, and also in the reconstruction of the Bohumín railway station and, in this context, agreed to release funds for the construction of an operations shop serving passenger cars in technical and hygienic maintenance at the Bohumín railway station.

The Supervisory Board discussed the capitalisation of the receivables of ČD, a.s. and gave the Board of Directors its prior consent to purchase the Company's receivables from ČD - Telekomunikace a.s. held by SŽDC, s.o. for consideration of CZK 227 million, and to capitalise aggregate receivables of CZK 297 million from ČD - Telekomunikace a.s. by way of an increase in the share capital of ČD - Telekomunikace a.s. In addition, it was concerned with the next steps in acquiring ČD, a.s.'s majority interest in the registered share capital of ČD - Telekomunikace a.s. and, accordingly, gave the Board of Directors its prior consent to, among other things, to contribute part of ČD, a.s.'s business worth CZK 607,570 million to ČD - Telekomunikace a.s.

The Supervisory Board also addressed the issue of ČD, a.s.'s investment in the equity of ŽOS Nymburk, a.s. under bankruptcy; it delegated the Board of Directors to follow the previously adopted resolutions of the Supervisory Board aimed at acquiring a capital investment at the most favourable conditions for ČD, a.s.

The Supervisory Board dealt with the results of the tender for establishing a joint venture aimed at preparing, implementing and developing the Praha – Masarykovo nádraží railway station site, it granted the Board of Directors its prior consent to establish a joint venture aimed at developing the Praha – Masarykovo nádraží railway station site and approved the proposed structure thereof. In addition, the Supervisory Board contemplated a solution for the Praha – Smíchovské nádraží railway station site.

The Supervisory Board addressed the issue of financing from EUROFIMA in 2004 and granted the Board of Directors its prior consent to receive a loan of EUR 45 million from EUROFIMA in 2004. Furthermore, it took an interest in the 2005 Business Plan of České dráhy, a.s. – the joint stock company, and also handled the issue of ČD, a.s.'s future payables between 2005 and 2010 with respect to fixed assets.

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 2004.



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



> Auditor's Report

Auditor's Report to the Management of České dráhy, a.s.

Having its registered office at: Nábřeží L. Svobody 1222, Prague 1, 110 15

Identification number: 70994226

Principal activities: Railway transportation and railway route operation

Based upon our audit, we issued the following audit report dated 6 May 2005 on the financial statements which are included in this annual report on pages 45 to 66:

"We have audited the accompanying financial statements of České dráhy, a.s., for the year ended 31 December 2004. 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 the auditing standards issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and conduct the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, the accounting records and other evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the Company in the preparation of the financial statements, as well as evaluation of the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

In our opinion, the financial statements give a true and fair view, in all material respects, of the assets, liabilities, equity and financial position of České dráhy, a.s., as of 31 December 2004 and of the results of its operations for the year then ended in accordance with the Accounting Act and applicable Czech regulations.

Without qualifying our opinion, we draw attention to the following matters.

As discussed in Note 3.7 to the financial statements, 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 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 is reported as a component of other capital funds. As of the incorporation date, pursuant to Act 77/2002 Coll. (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 2003 and 31 December 2004 was negative.

As further discussed in Note 1.5 to the financial statements, the presentation of the opening balance sheet as of 1 January 2003 required the management of the Company to interpret the provisions of the Transformation Act and to apply general apportionment principles as outlined in the Act to the individual components of the assets and liabilities of České dráhy, státní organizace, and/or to make certain estimates and assumptions that affected the apportionment of these assets and liabilities. Management made its best efforts to interpret and apply the Transformation Act and to make estimates and assumptions in order to ensure the appropriate and legally consistent apportionment of assets and liabilities. Despite these efforts, alternative interpretations of the Transformation Act may exist in certain areas and it cannot be ruled out that certain of these alternative interpretations may be identified as being more appropriate in the future. The financial statements for the years ended 31 December 2003 and 2004 do not include any adjustments that might be necessary as a result of any such future revisions of the applied interpretations and the resulting impacts on the reported components and amounts of the Company's assets and liabilities.

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 Správa železniční dopravní cesty, státní organizace may exist, as discussed in the previous paragraph, the Company's Establishment Deed was respected. The assets contained in the Establishment Deed are presented in the opening balance sheet as of 1 January 2003."



> Auditor's 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 2004. The Company's opinion on which the management based this decision is described on page 69 of this annual report.

We have read other financial information included in this annual report for consistency with the above mentioned financial statements. The responsibility for the correctness of this information rests with the Company's Board of Directors. In our opinion, other financial information included in this annual report is consistent, in all material respects, with the relevant financial statements.

In Prague on 6 June 2005



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



Statutory auditor:
Michal Petrman
Certificate No. 1105



Represented by:
Michal Petrman, statutory executive



> Financial Statements

Balance Sheet

full version as of 31.12.2004 (in CZK thousand)

		31.12.2004		31.12.2003
	Gross	Adjustment	Net	Net
TOTAL ASSETS	96,960,048	-49,658,923	47,301,125	45,290,571
B. Fixed assets	88,219,686	-49,490,803	38,728,883	36,235,955
B.I. Intangible fixed assets	2,718,485	-2,559,700	158,785	106,434
B.I.1. Research and development	103,299	-102,545	754	438
B.I.1.3. Software	767,307	-725,969	41,338	52,832
B.I.1.4. Valuable rights	1,730,302	-1,730,244	58	459
B.I.1.6. Other intangible fixed assets	942	-942		
B.I.1.7. Intangible fixed assets under construction	116,635		116,635	52,705
B.II. Tangible fixed assets	84,660,185	-46,928,582	37,731,603	35,728,074
B.II.1. Land	8,022,699	-7,420	8,015,279	8,025,710
B.II.2. Structures	21,134,600	-11,726,196	9,408,404	9,320,401
B.II.3. Individual movable assets and sets of movable assets	50,999,969	-35,194,556	15,805,413	15,952,628
B.II.6. Other tangible fixed assets	4,350	-410	3,940	3,953
B.II.7. Tangible fixed assets under construction	2,058,057		2,058,057	1,086,236
B.II.8. Prepayments for tangible fixed assets	2,440,510		2,440,510	1,339,146
B.III. Non-current financial assets	841,016	-2,521	838,495	401,447
B.III.1. Equity investments in subsidiaries	32,522	-169	32,353	29,910
B.III.2. Equity investments in associates	532,865	-1,952	530,913	235,186
B.III.3. Other securities and investments	275,629	-400	275,229	136,351
C. Current assets	8,720,244	-168,120	8,552,124	9,017,904
C.I. Inventories	1,879,282	-102,427	1,776,855	1,787,057
C.I.1. Material	1,763,987	-102,427	1,661,560	1,726,626
C.I.1.2. Work in progress and semifinished goods	14,182		14,182	21,711
C.I.1.4. Animals	3		3	4
C.I.1.5. Goods	5,226		5,226	4,849
C.I.1.6. Prepayments for inventory	95,884		95,884	33,867
C.II. Long-term receivables	5,379	-62	5,317	9,542
C.II.5. Long-term prepayments made	3,239		3,239	6,791
C.II.7. Other receivables	2,140	-62	2,078	2,751
C.III. Short-term receivables	4,723,603	-65,631	4,657,972	4,799,995
C.III.1. Trade receivables	2,939,831	-62,503	2,877,328	2,721,363
C.III.6. State – tax receivables	136,960		136,960	394,926
C.III.7. Short-term prepayments made	229,850		229,850	267,049
C.III.8. Estimated receivables	1,363,426		1,363,426	1,382,314
C.III.9. Other receivables	53,536	-3,128	50,408	34,343
C.IV. Current financial assets	2,111,980		2,111,980	2,421,310
C.IV.1. Cash on hand	65,398		65,398	65,009
C.IV.2. Cash at bank	2,046,582		2,046,582	2,356,301
D. I. Other assets	20,118		20,118	36,712
D.I.1. Deferred expenses	19,903		19,903	36,360
D.I.2. Complex deferred expenses	62		62	62
D.I.3. Accrued income	153		153	290
Control number	387,820,074	-198,635,692	189,184,382	181,125,572



> Financial Statements

	31.12.2004	31.12.2003
TOTAL LIABILITIES & EQUITY	47,301,125	45,290,571
A. Equity	37,575,941	38,315,686
A.I. Share capital	20,000,000	20,000,000
A.I.1. Share capital	20,000,000	20,000,000
A.II. Capital funds	19,055,936	19,047,328
A.II.1. Share premium	19,500,000	19,500,000
A.II.2. Other capital funds	-444,064	-452,672
A.III. Statutory funds	66,144	193,225
A.III.2. Statutory and other funds	66,144	193,225
A.IV. Retained earnings	-924,867	
A.IV.2. Accumulated losses brought forward	-924,867	
A.V. Profit or loss for the current period	-621,272	-924,867
B. Liabilities	9,604,072	6,831,064
B.I. Reserves	183,656	403,421
B.I.4. Other reserves	183,656	403,421
B.II. Long-term liabilities	1,872,788	85,865
B.II.1. Trade payables		30,744
B.II.5. Long-term prepayments received	611	783
B.II.9. Other payables	1,872,177	54,338
B.III. Short-term liabilities	6,746,271	6,057,649
B.III.1. Trade payables	3,215,136	2,436,160
B.III.5. Payables to employees	1,324,344	1,308,951
B.III.6. Social security and health insurance payables	643,773	642,300
B.III.7. State – tax payables and subsidies	254,475	245,892
B.III.8. Short-term prepayments received	285,277	377,967
B.III.10. Estimated payables	1,022,885	1,042,279
B.III.11. Other payables	381	4,100
B.IV. Bank loans and borrowings	801,357	284,129
B.IV.1. Long-term bank loans	721,221	284,129
B.IV.2. Short-term bank loans	80,136	
C. I. Other liabilities	121,112	143,821
C.I.1. Accrued expenses	26,452	34,102
C.I.2. Deferred income	94,660	109,719
Control number	189,704,660	181,943,330



> Financial Statements

Profit and Loss Account

year ended 31.12.2004 (in CZK thousand)

	31.12.2004	31.12.2003
I. Sales of goods	149,252	141,944
A. Costs of goods sold	120,339	114,638
+ Gross margin	28,913	27,306
II. Production	36,722,447	38,062,448
II.1. Sales of own products and services	36,550,121	37,873,689
II.2. Change in internally produced inventory	-7,126	-8,228
II.3. Own work capitalised	179,452	196,987
B. Purchased consumables and services	20,187,778	19,941,399
B.1. Consumed material and energy	7,077,155	7,233,671
B.2. Services	13,110,623	12,707,728
+ Added value I. - A. + II. - B.	16,563,582	18,148,355
C. Staff costs	23,369,010	23,316,555
C.1. Payroll costs	17,012,909	16,891,165
C.2. Remuneration to members of statutory bodies	3,466	4,569
C.3. Social security and health insurance costs	5,732,189	5,811,258
C.4. Social costs	620,446	609,563
D. Taxes and charges	33,195	39,866
E. Depreciation of intangible and tangible fixed assets	2,491,847	2,499,050
III. Sales of fixed assets and material	430,023	215,781
III.1. Sales of fixed assets	134,046	20,276
III.2. Sales of material	295,977	195,505
F. Net book value of fixed assets and material sold	267,695	187,741
F.1. Net book value of sold fixed assets	14,337	25,613
F.2. Book value of sold material	253,358	162,128
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	-752,849	1,144,986
IV. Other operating income	8,196,667	8,592,903
H. Other operating expenses	435,011	672,127
* Operating profit or loss	-653,637	-903,286
VII. Income from non-current financial assets	2,593	2,445
VII.3. Income from other non-current financial assets	2,593	2,445
X. Interest income	30,816	16,605
N. Interest expenses	1,386	14,597
XI. Other financial income	297,461	206,683
O. Other financial expenses	389,513	214,446
* Financial profit or loss	-60,029	-3,310
Q. Income tax on ordinary activities		
** Profit or loss from ordinary activities	-713,666	-906,596
XIII. Extraordinary income	152,461	8,346
R. Extraordinary expenses	60,067	26,617
* Extraordinary profit or loss	92,394	-18,271
*** Profit or loss for the current period	-621,272	-924,867
**** Profit or loss before tax	-621,272	-924,867
Control number	187,579,271	191,640,010



> Financial Statements

Cash Flow Statement

year ended 31.12.2004 (in CZK thousand)

	31.12.2004	31.12.2003
P. Opening balance of cash and cash equivalents	2,421,310	86,909
<i>Cash flows from ordinary activities</i>		
Z. Profit or loss from ordinary activities before tax	-713,666	-906,596
A.1. Adjustments for non-cash transactions	1,604,901	3,892,254
A.1.1. Depreciation of fixed assets	2,498,673	2,512,545
A.1.2. Change in provisions and reserves	-752,849	1,145,206
A.1.3. Profit (loss) on the sale of fixed assets	-119,709	5,337
A.1.4. Revenues from dividends and profit shares		
A.1.5. Interest expense and interest income	-29,430	-2,007
A.1.6. Adjustments for other non-cash transactions	8,216	231,173
A.* Net operating cash flow before changes in working capital	891,235	2,985,658
A.2. Change in working capital	524,889	806,166
A.2.1. Change in operating receivables and other assets	147,212	-3,098,455
A.2.2. Change in operating payables and other liabilities	150,614	4,154,751
A.2.3. Change in inventories	227,063	-250,130
A.2.4. Change in current financial assets		
A.** Net cash flow from operations before tax and extraordinary items	1,416,124	3,791,824
A.3. Interest paid	-1,386	-14,598
A.4. Interest received	30,816	16,605
A.5. Income tax paid from ordinary operations	316	-307
A.6. Receipts and expenditures relating to extraordinary activities	92,394	-18,142
A.7. Received dividends and profit shares		
A.*** Net operating cash flows	1,538,264	3,775,382
<i>Cash flows from investing activities</i>		
B.1. Fixed assets expenditures	-4,160,044	-1,614,602
B.2. Proceeds from fixed assets sold	134,008	20,313
B.3. Loans provided to related parties		
B.*** Net investment cash flows	-4,026,036	-1,594,289
<i>Cash flow from financial activities</i>		
C.1. Change in payables from financing	2,304,150	314,393
C.2. Impact of changes in equity	-125,708	-161,085
C.2.1. Cash increase in share capital		
C.2.2. Capital payments to partners		
C.2.3. Other cash contributions made by partners	20,553	175
C.2.4. Settlement of loss by partners		
C.2.5. Payments from capital funds	-146,261	-161,260
C.2.6. Dividends paid		
C.*** Net financial cash flows	2,178,442	153,308
F. Net increase or decrease in cash and cash equivalents	-309,330	2,334,401
R. Closing balance of cash and cash equivalents	2,111,980	2,421,310



> Financial Statements

Statement of Changes in Equity

year ended 31.12.2004 (in CZK thousand)

	Share capital	Share premium	Other capital funds	Statutory and other funds from profit	Accumulated losses brought forward	Profit or loss for the current period	Total equity
Balance at 1 January 2003	20,000,000	19,500,000	-376,605	354,493			39,477,888
Distribution of profit or loss							
Change in share capital							
Use of the social fund				-161,268			-161,268
Profit or loss for the current period						-924,867	-924,867
Other			-76,067				-76,067
Balance at 31 December 2003	20,000,000	19,500,000	-452,672	193,225		-924,867	38,315,686
Distribution of profit or loss					-924,867	924,867	
Change in share capital							
Use of the social fund				-127,081			-127,081
Profit or loss for the current period						-621,272	-621,272
Other			8,608				8,608
Balance at 31 December 2004	20,000,000	19,500,000	-444,064	66,144	-924,867	-621,272	37,575,941



> Notes to the Financial Statements

Notes to the Financial Statements for the year ended 31 December 2004

1. General Information

1.1. Background Information

České dráhy, a.s. (henceforth 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 2004.

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 First Deputy CEO;
- > The section of the Company's Deputy CEO for Economics;
- > The section of the Company's Deputy CEO for Business and Operations;
- > The section of the Company's Deputy CEO for Transportation Routes.

1.4. The Company's Bodies

The Company's bodies include a 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 2004

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



> Notes to the Financial Statements

	Position	Name
Board of Directors	Chairman	Petr Kousal
	Member	Josef Bazala
	Member	Ivan Foltýn
	Member	Jiří Kloutvor

Mr Vlastimil Nešetřil was a member of the Board of Directors until 7 December 2004. A new member of the Board of Directors, Mr Petr David, was elected on 1 March 2005.

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

Mr. Tomáš Chalánek has been a member of the Supervisory Board since 23 June 2004. Mr. Miroslav Kapoun was elected a member of the Supervisory Board on 17 December 2004 and took office with effect from 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.

The presentation of the opening balance sheet as of 1 January 2003 required the management of the Company to interpret the provisions of the Transformation Act and to apply general apportionment principles as outlined in the Act to the individual components of the assets and liabilities of České dráhy, státní organizace, and/or to make estimates and assumptions that affected the apportionment of these assets and liabilities. Management made its best efforts to interpret and apply the Transformation Act and to make estimates and assumptions in order to ensure the appropriate and legally consistent apportionment of assets and liabilities. Despite these efforts, alternative interpretations of the Transformation Act may exist in certain areas and it cannot be ruled out that certain of these alternative interpretations may be identified as being more appropriate in the future. The financial statements for the years ended 31 December 2004 and 2003 do not include any adjustments that might be necessary as a result of any such future revisions of the applied interpretations and the resulting impacts on the reported components and amounts of the Company's assets and liabilities.

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.

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., and Acts 575/2002 Coll., 437/2003 Coll., 257/2004 Coll. and 669/2004 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 the Regulation 472/2003 Coll.; and Czech Accounting Standards for Businesses.

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.



> Notes to the Financial Statements

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 fixed 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 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 lease 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	50
Constructions	25–50
Locomotives	20–25
Passenger coaches	20
Wagons	25–33
Machinery and equipment	10–30
Intangible assets	5

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 equity investments, securities and equity investments available for sale and debt securities with a maturity greater than one year held to maturity, and non-current assets held under a business lease arrangement.

Non-current financial assets are carried at acquisition cost.

At the balance sheet date, the Company records provisions against equity investments on the basis of its share of equity of the entity, taking into account other relevant factors.

3.3. Inventory

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

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



> Notes to the Financial Statements

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 stocktake 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.

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.

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 2003 and 31 December 2004 is negative.

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 during 2003 and 2004. In 2004, the Company did make any allocations to the fund.

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.

The reserve for outstanding vacation days is established through 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.

Reserves for discounts and claims is determined using a reasonable estimate of discounts 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.

The reserve for payments made as compensation for job-related accidents and diseases 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.

Other reserves are recorded as equal to the anticipated expenditure or losses relating to the period.



> Notes to the Financial Statements

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. Income Taxes

3.10.1. 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 tax rates that have been enacted by the balance sheet date.

3.10.2. 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.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet.

3.11. 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.

3.12. Financial Derivatives

At the balance sheet date, the Company had not entered into any financial derivative.

3.13. State Grants and Grants to Cover Losses from Passenger Transport

Investment 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 cover losses from passenger transport 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.

3.14. Revenue Recognition

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

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

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.

3.15. 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.



> Notes to the Financial Statements

3.16. 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.

3.17. Changes in Accounting Policies

No year-on-year changes were made to accounting policies.

3.18. 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:

(CZK '000)	31 December 2004	31 December 2003
Cash on hand and cash in transit	65,398	65,009
Cash at bank	2,046,582	2,356,301
Total cash and cash equivalents	2,111,980	2,421,310

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 (CZK '000)

Acquisition cost	Balance at 1 January 2003	Additions	Disposals	Balance at 31 December 2003	Additions	Disposals	Balance at 31 December 2004
Research and development	110,818	0	189	110,629	597	7,927	103,299
Software	741,755	12,564	6,405	747,914	27,468	8,075	767,307
Valuable rights	1,730,303	0	0	1,730,303	0	1	1,730,302
Other assets	942	0	0	942	0	0	942
Intangible assets under construction	18,086	34,619	0	52,705	173,411	109,481	116,635
Total	2,601,904	47,183	6,594	2,642,493	201,476	125,484	2,718,485

Accumulated amortisation	Balance at 1 January 2003	Additions	Disposals	Balance at 31 December 2003	Additions	Disposals	Balance at 31 December 2004
Research and development	109,774	606	189	110,191	281	7,927	102,545
Software	652,336	49,626	6,880	695,082	38,041	7,154	725,969
Valuable rights	1,729,443	401	0	1,729,844	401	1	1,730,244
Other assets	915	27	0	942	0	0	942
Intangible assets under construction	0	0	0	0	0	0	0
Total	2,492,468	50,660	7,069	2,536,059	38,723	15,082	2,559,700

Net book value	Balance at 1 January 2003	Balance at 31 December 2003	Balance at 31 December 2004
Research and development	1,045	438	754
Software	89,419	52,832	41,338
Valuable rights	859	459	58
Other assets	27	0	0
Intangible assets under construction	18,086	52,705	116,635
Total	109,436	106,434	158,785

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.



> Notes to the Financial Statements

4.2. Tangible Fixed Assets (CZK '000)

Acquisition Cost	Balance at 1 January 2003	Additions	Disposals	Balance at 31 December 2003	Additions	Disposals	Balance at 31 December 2004
Land	8,306,719	116,542	392,565	8,030,696	14,721	22,718	8,022,699
Buildings	20,056,643	633,757	55,568	20,634,832	599,090	99,322	21,134,600
Individual movable assets	49,454,867	2,109,388	730,379	50,833,876	1,521,644	1,355,551	50,999,969
– Machinery, equipment, and furniture and fixture	7,251,673	279,581	262,785	7,268,469	213,676	626,797	6,855,348
– Vehicles	41,889,716	1,811,508	463,583	43,237,641	1,307,080	721,927	43,822,794
– Other	313,478	18,299	4,011	327,766	888	6,827	321,827
Other assets	4,359	67	0	4,426	70	146	4,350
Tangible assets under construction	1,268,311	0	175,121	1,093,190	1,967,324	1,002,457	2,058,057
Prepayments	1,930,900	0	105,679	1,339,146	1,296,970	195,606	2,440,510
Total	81,021,780	2,859,754	1,353,633	81,936,166	5,204,935	2,480,916	84,660,185

Accumulated Depreciation	Balance at 1 January 2003	Additions	Disposals	Balance at 31 December 2003	Additions	Disposals	Balance at 31 December 2004
Buildings	10,706,065	533,311	0	11,242,376	432,612	83,016	11,591,971
Individual movable assets	32,350,768	1,364,289	0	33,715,057	2,032,853	1,336,471	34,411,439
– Machinery, equipment, and furniture and fixture	5,631,245	90,948	0	5,722,193	307,414	615,214	5,414,393
– Vehicles	26,563,928	1,236,286	0	27,800,214	1,725,439	721,257	28,804,396
– Other	155,595	37,055	0	192,650	0	0	192,650
Other assets	399	10	0	409	0	7	402
Tangible assets under construction	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0
Total	43,057,232	1,897,610	0	44,957,842	2,465,465	1,419,494	46,003,812

Provisions	Balance at 1 January 2003	Additions	Disposals	Balance at 31 December 2003	Additions	Disposals	Balance at 31 December 2004
Land	0	4,986	0	4,986	7,420	4,986	7,420
Buildings	8,474	64,733	1,151	72,056	134,225	72,056	134,225
Individual movable assets	800,259	366,330	397	1,166,192	783,117	1,166,192	783,117
– Machinery, equipment, and furniture and fixture	8,873	599	397	9,075	3,304	9,075	3,304
– Vehicles	791,386	365,731	0	1,157,117	779,813	1,157,117	779,813
– Other	0	0	0	0	0	0	0
Other assets	64	0	0	64	8	64	8
Tangible assets under construction	6,954	0	0	6,954	0	6,954	0
Prepayments	0	0	0	0	0	0	0
Total	815,751	436,049	1,548	1,250,251	924,762	1,250,244	924,770



> Notes to the Financial Statements

Net Book Value	Balance at 1 January 2003	Balance at 31 December 2003	Balance at 31 December 2004
Land	8,306,719	8,025,710	8,015,279
Buildings	9,342,105	9,320,401	9,408,404
Individual movable assets	16,303,840	15,952,628	15,805,413
– Machinery, equipment, and furniture and fixture	1,611,555	1,537,201	1,437,651
– Vehicles	14,533,996	14,214,601	14,238,585
– Other	157,883	135,116	129,177
Other assets	3,895	3,953	3,940
Tangible assets under construction	1,261,357	1,086,236	2,058,057
Prepayments	1,930,900	1,339,146	2,440,510
Total	37,148,816	35,728,074	37,731,603

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 and prepayments principally include the amounts of CZK 1,353,594 thousand and CZK 11,143,540 thousand comprising the costs of acquiring seven sets of rail vehicles with moving bodies ("Pendolina"). During 2004, three of the taken-over sets were put into test operation. The remaining four sets are expected to be taken over during 2005.

The most significant disposals of tangible assets included the disposal of automatic telephone exchanges, communication equipment, buildings, etc as a result of new investment construction at a cost of CZK 163,205 thousand, locomotives at a cost of CZK 159,246 thousand, and other rail vehicles at a cost of CZK 434,344 thousand. The most significant addition to tangible assets included the acquisition of pantograph train no. 471 amounting to CZK 413,283 thousand.

4.2.1. Pledged Assets

The Company holds no assets pledged as security.

4.2.2. Assets Held under Finance Leases (CZK '000)

Description	Date of inception	Term in months	Total lease value	Payments made in 2004	Due in 2005	Due in following years
Computers and office equipment	12/2002	36	21,125	15,929	5,196	
AU analyser	06/2003	36	2,095	466	699	930
Other	05/1998	69	1,119	1,119		
Total			24,339	17,514	5,895	930

Assets held under finance leases are not included in the assets reported on the balance sheet. The above figures are net of VAT.

4.3. Non-Current Financial Assets

4.3.1. Equity Investments in Subsidiaries (CZK '000)

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 2003
RAILREKLAM, spol. s r.o.	Prague 1, Klimentská 36/1652	29,250	0	100%	34,745	6,522	29,250	29,250
RailReal a.s.	Prague 3, Olšanská 1a	660	0	66%	2,108	301	660	660
ČD Reality a.s.	Prague 3, Prvního pluku 2a/81	1,020	169	51%	1,668	-332	851	**)
ČD Generalvertretung GmbH	Germany, Frankfurt am/M	1,592	0	100%	*)	*)	1,592	**)
Total		32,522	169				32,353	29,910

*) The figure is not available.

***) The equity investment was acquired in 2004.



> Notes to the Financial Statements

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.

4.3.2. Equity Investments in Associates (CZK '000)

Business name of the entity	Registered office	Cost	Provision	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2004	Valuation at 31 Dec 2003
CD CENTRUM, a.s.	Brno, Heršpická 813/5	2,940	1,272	49%	3,405	-1,812	1,668	2,940
CR-City a.s.	Prague 3, Olšanská 1a	680	680	34%	-7,846	-8,897	0	680
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6	822	0	20%	*)	*)	822	822
ČD - Telekomunikace a.s.		527,743	0	40%	1,481,864	1,225	527,743	230,744
Masaryk Station Development, a.s.	Prague 3, Olšanská 1a	680	0	34%	*)	*)	680	**)
Total		532,865	1,952				530,913	235,186

*) The figure is not available.

***) The equity investment was acquired in 2004.

In 2003, the Company acquired 34 percent of the issued share capital of ČD - Telekomunikace a.s. on the basis of a debt assignment agreement put in place with MORÁVKA CENTRUM, a.s. at a cost of CZK 230,744 thousand. In 2004, the Company increased its shareholding in ČD - Telekomunikace a.s. to 40 percent. ČD - Telekomunikace a.s. is engaged in providing telecommunication services.

The equity investment in Masaryk Station Development, a.s. was acquired in 2004.

4.3.3. Other Equity Investments and Securities (CZK '000)

Type of security and investment	Cost	Provision	Valuation at 31 Dec 2004	Valuation at 31 Dec 2003
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	125,691
INTERCONTAINER – INTERFRIGO (ICF) SA	5,189	0	5,189	3,493
INTERNATIONALE SPEDITION DĚČÍN a.s.	400	400	0	0
Total	275,629	400	275,229	136,351

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 from 0.5 percent as of 31 December 2003 to 1 percent as of 31 December 2004. 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 (ICF) SA by EUR 55 thousand.



> Notes to the Financial Statements

4.4. Inventory (CZK '000)

	Balance at 31 Dec 2004	Balance at 31 Dec 2003
Spare parts for machinery and equipment	365,352	400,715
Spare parts and other components for rail vehicles and locomotives	465,239	394,194
Other spare parts and other minor components	284,511	322,956
Fuels and other oil products	95,622	220,558
Switches, turntables, traverse tables and components for rail superstructures	148,574	164,203
Other	519,984	603,718
Total cost	1,879,282	2,106,344
Provisions	102,427	319,287
Total net book value	1,776,855	1,787,057

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 2004 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 (CZK '000)

Year	Category	Before due date	Past due (in days)					Total	Total
			0–90	91–180	181–365	366–730	731 and greater		
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
2003	Gross	2,459,407	221,253	56,768	42,477	0	0	320,498	2,779,905
	Provisions	0	20	16,045	42,477	0	0	58,542	58,542
	Net	2,459,407	221,233	40,723	0	0	0	261,956	2,721,363

4.5.2. Tax Receivables

As of 31 December 2004 and 2003, tax receivables largely consisted of a VAT receivable amounting to CZK 130,664 thousand and CZK 394,619 thousand, respectively.

4.5.3. Prepayments Made

As of 31 December 2004 and 2003, short-term prepayments made amounted to CZK 229,850 thousand and CZK 267,049 thousand, respectively, and largely consisted of prepayments made for the supply of services (electricity, heat, etc).

4.6. Estimated Receivables (CZK '000)

	Balance at 31 December 2004	Balance at 31 December 2003
Cross-border rentals for passenger coaches	591,755	605,637
Cross-border rentals for freight wagons	180,708	209,529
Income from international transportation	456,519	519,043
Other	134,444	48,105
Total estimated receivables	1,363,426	1,382,314

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 2004 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.



> Notes to the Financial Statements

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 change in the balance of other capital funds in 2003 principally related to an additional refinement of the scope and value of assets and liabilities transferred to the Company as of 1 January 2003.

The decrease in statutory and other funds relates to the use of the culture and social needs fund. In 2004 and 2003, the Company did not account for any additions to the fund.

4.8. Reserves (CZK '000)

	Balance at 1 January 2003	Charge	Use	Balance at 31 December 2003	Charge	Use	Balance at 31 December 2004
Reserve for discounts and claims	34,658	26,458	34,658	26,458	35,197	26,458	35,197
Reserve for rents	18,345	0	0	18,345	15,477	18,345	15,477
Reserve for repairs of assets	0	4,743	0	4,743	0	4,743	0
Reserve for the complementary social programme	0	52,618	0	52,618	0	52,618	0
Reserve for outstanding vacation days	0	301,257	0	301,257	0	168,275	132,982
Total reserves	53,003	383,076	34,658	403,421	50,674	270,439	183,656

The Company records a reserve for discounts and claims to be provided to customers subsequent to the balance sheet date.

The Company is required to pay compensation for job-related accidents and diseases and extra pension payments to certain former employees. The aggregate estimated present value of future payments in respect of job-related accidents, diseases and pensions originating before the balance sheet date was CZK 15,477 thousand and CZK 18,345 thousand in 2004 and 2003, respectively.

In 2003, the Company recorded a reserve for liabilities arising from the 'complementary social programme' up to the amount to which these liabilities were incurred and still outstanding as of 31 December 2003 are not covered by a state grant or were not transferred to SŽDC at the date of the Company's incorporation. Given that these liabilities were settled or waived in 2004, the Company derecognised this reserve in 2004.

With effect from 2003, the Company has recorded a reserve for outstanding vacation days 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. The Company reassesses the level of this reserve always at the year-end and therefore recognises only the change in the reserve balance at the balance sheet date. A significant decrease in this reserve in 2004 was due to the increased use of vacation by the Company's staff and a refinement of the method used in calculating this reserve.

All of the recorded reserves are non-tax deductible.

4.9. Long-Term Payables (CZK '000)

	Balance at 31 December 2004	Balance at 31 December 2003
Payable to EUROFIMA	1,827,839	0
Payable to the City of Karlovy Vary	44,000	54,000
Payable arising from purchased receivables	0	30,744
Long-term received prepayments	611	783
Other	338	338
Total long-term payables	1,872,788	85,865

In 2004, the Company received a long-term loan from EUROFIMA to finance the purchase of rail vehicles. 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. This payable amounted to CZK 44,000 thousand and CZK 54,000 thousand as of 31 December 2004 and 2003, respectively. An amount of CZK 30,744 thousand represented a long-term component of the payable arising from the agreement on the assignment of receivables from the debtor ČD - Telekomunikace a.s.



> Notes to the Financial Statements

4.10. Short-Term Payables

4.10.1. Trade Payables (CZK '000)

Year	Category	Before due date	Past due (in days)					Total	Total
			0–90	91–180	181–365	366–730	731 and greater		
2004	Short-term	2,927,704	274,401	10,247	2,748	-238	274	287,432	3,215,136
2003	Short-term	2,218,298	217,902	1,756	-2,626	221	609	217,862	2,436,160

4.10.2. Tax Payables and Subsidies

As of 31 December 2004, tax payables were largely composed of personal income taxation deducted from the gross wages of the Company's employees amounting to CZK 179,758 thousand (2003: CZK 179,718 thousand) and an outstanding amount of the investment subsidy received by the Company from municipalities of CZK 39,967 thousand (2003: CZK 46,123 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.

4.10.3. Prepayments Received

As of 31 December 2004, short-term prepayments received amounted to CZK 285,277 thousand (2003: CZK 377,967 thousand) and were largely composed of rental prepayments.

4.11. Estimated Payables (CZK '000)

	Balance at 31 December 2004	Balance at 31 December 2003
Rental for passenger coaches of foreign companies in the Czech Republic	472,081	515,802
Rental for freight wagons of foreign companies in the Czech Republic	109,454	153,693
Costs of international transportation	290,286	203,651
Other	151,064	169,133
Total estimated payables	1,022,885	1,042,279

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 (CZK '000)

Bank	Currency	Balance at 31 December 2004	Balance at 31 December 2003	Interest rate	Collateral form
ČSOB	EUR	721,221	284,129	3M EURIBOR + 0.5	State guarantee
Total		721,221	284,129		

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. As of 31 December 2003, EUR 8,768 thousand was drawn (a one-off draw-down on 23 June 2003). As of 31 December 2004, EUR 26,305 thousand was drawn (3 draw-downs of EUR 8,768 thousand). The Company will begin repaying the loan in 2005. The final maturity date of the loan is 25 November 2014. 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.

Short-Term Bank Loans

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans. As of 31 December 2004, the portion of the long-term loan disclosed in Note 4.12. maturing within one year amounts to CZK 80,136 thousand.



> Notes to the Financial Statements

4.13. Income Taxes

4.13.1. Tax Payable

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

4.13.2. Deferred Taxation

The Company has determined a deferred tax asset as follows (CZK '000):

	Balance at 31 December 2004	Balance at 31 December 2003
Tangible and intangible fixed assets	-423,873	77,117
Non-current financial assets	96	96
Trade receivables	10,913	10,965
Inventory	24,582	72,511
Reserves	44,078	92,418
Tax loss	1,005,444	409,583
Total deferred tax asset	661,240	662,690

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 2004.

Deferred income predominantly includes rental income from 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 (CZK '000)

	Year ended 31 December 2004			Year ended 31 December 2003		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income from freight transportation	5,676,589	12,002,514	17,679,103	11,420,496	7,153,404	18,573,900
Income from passenger transportation	3,743,674	1,557,201	5,300,875	3,531,235	1,476,424	5,007,659
Income from other transportation	19,426	0	19,426	221,670	0	221,670
Income from securing railway routes	11,374,912	0	11,374,912	11,330,304	0	11,330,304
Income from securing modernisation and development railway routes	40,174	0	40,174	318,000	0	318,000
Income from other services	2,135,631	0	2,135,631	2,422,156	0	2,422,156
Income from the sale of the Company's products and services	22,990,406	13,559,715	36,550,121	29,243,861	8,629,828	37,873,689

Income from securing railway routes represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 4,919,217 thousand (2003: CZK 5,102,304 thousand) and operability of CZK 6,455,695 thousand (2003: CZK 6,228,000 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, income from heat and electricity distribution and income from health insurers.



> Notes to the Financial Statements

4.16. Consumed Purchases (CZK '000)

	Year ended 31 December 2004	Year ended 31 December 2003
Consumed material	2,632,706	2,731,142
Consumed energy	2,500,338	2,667,782
Consumption of fuels	1,944,111	1,834,747
Total consumed purchases	7,077,155	7,233,671

4.17. Services (CZK '000)

	Year ended 31 December 2004	Year ended 31 December 2003
Repairs and maintenance	3,958,375	3,445,409
Travel expenses	289,631	323,097
Telephone, fax, internet, postal fees	161,038	144,759
Rental	98,952	95,624
Use of railway routes, management of operations	5,810,085	5,757,783
Rent for railway coaches and wagons	785,663	1,315,417
Freight charges	216,116	231,555
Services of dining and sleeping carriages	126,214	100,235
Services associated with the use of buildings	230,600	217,387
Cleaning and shifting of coaches and wagons	118,194	127,504
Other services	1,315,755	948,958
Total	13,110,623	12,707,728

4.18. Change in Reserves and Provisions Relating to Operating Activities (CZK '000)

	Year ended 31 December 2004	Year ended 31 December 2003
Change in reserves	-219,765	350,418
Change in provisions against receivables	7,136	58,557
Change in provisions against tangible fixed assets	-325,481	433,881
Change in provisions against non-current financial assets	2,121	0
Change in provisions against inventory	-216,860	302,130
Total change in reserves and provisions relating to operating activities	-752,849	1,144,986

The decrease in the level of reserves in 2004 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.

4.19. Other Operating Income (CZK '000)

	Year ended 31 December 2004	Year ended 31 December 2003
Settlement of losses from passenger transportation from the State budget	4,789,982	4,995,765
Settlement of losses from passenger transportation from the regional budgets	2,174,846	2,174,860
Subsidies	601,758	372,821
Recoveries of receivables written off and transferred	399	231,237
Contractual penalties and default interest	363	37,138
Compensation for damage from insurers and other entities	13,165	169,602
Funds from the State Fund of Transport Infrastructure received in respect of floods in 2002	0	107,794
Other	616,154	503,686
Total other operating income	8,196,667	8,592,903

The line "Other" includes, for example, payments collected from employees for company meals, recreation, and commissions on the sale of tickets.



> Notes to the Financial Statements

4.20. Other Operating Expenses (CZK '000)

	Year ended 31 December 2004	Year ended 31 December 2003
Contractual penalties and default interest	4,815	3,070
Write-offs of receivables and transferred receivables	8,217	231,173
Deficits and damage relating to operating activities	68,745	67,341
Insurance	142,803	121,832
Employee uniforms and lump sum payments	105,226	127,806
Compensation for asset damage and impaired health	38,319	39,967
Membership allowances	31,258	36,668
Other operating expenses	35,628	47,340
Total other operating expenses	435,011	672,127

4.21. Other Financial Income and Expenses

Other financial income and expenses largely include foreign exchange rate gains and losses.

4.22. Extraordinary Income and Expenses

Extraordinary income predominantly includes the sale of 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 2004 and 2003:

2004

	Headcount	Wages and salaries (CZK '000)	Social security and health insurance (CZK '000)	Other expenses (CZK '000)	Total staff costs (CZK '000)
Staff	73,547	16,847,520	5,675,174	621,576	23,144,270
Management	278	165,389	57,015	2,336	224,740
Total	73,825	17,012,909	5,732,189	623,912	23,369,010

2003

	Headcount	Wages and salaries (CZK '000)	Social security and health insurance (CZK '000)	Other expenses (CZK '000)	Total staff costs (CZK '000)
Staff	78,228	16,704,676	5,747,078	607,245	23,058,999
Management	347	186,489	64,180	6,887	257,556
Total	78,575	16,891,165	5,811,258	614,132	23,316,555

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 3,466 thousand and CZK 4,569 thousand in 2004 and 2003 (included in the above table), respectively. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.



> Notes to the Financial Statements

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 as incurred.

The Company is involved in no legal disputes with a significant financial impact. As such, the Company decided not to recognise any reserve for legal disputes.

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 2004 are lower than the aggregate loss.

The proposed level of compensation for the year ending 31 December 2005 is similar to the level of compensation received for the year ended 31 December 2004 (refer to Note 4.19). At the date of the financial statements, the levels of compensation for 2005 were agreed to with all territorial self-governing units and certain of the relevant agreements have been signed. Management of the Company anticipates that the remaining agreements setting out the agreed-upon amounts will be entered into in the nearest future. A draft of the agreement with the State setting out the anticipated volume of compensation for the year ending 31 December 2005 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 2005. Similarly as in 2004, management anticipates that the aggregate level of compensation received for the year ending 31 December 2005 will be lower than the aggregate loss from long-distance and regional 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.

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 2004 and 2003 were as follows:

Year Ended 31 December 2004 (CZK '000)

	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	–
Total	5,810,086	11,415,086



> Notes to the Financial Statements

Year Ended 31 December 2003 (CZK '000)

	Expenses	Income
Securing railway routes – management of operation	–	5,102,304
Securing railway routes – maintenance of operability	–	6,228,000
Securing modernisation and development railway routes	–	318,000
Use of railway routes – passenger transport	1,480,271	–
Use of railway routes – freight transport	4,277,512	–
Total	5,757,783	11,648,304

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 4.17.

In parallel, under a mandate agreement, the Company performed activities for SŽDC related to the split of the state organisation Czech Railways. Income from these activities was immaterial.

Receivables and Payables

As of 31 December 2004, the Company recorded amounts due to and from SŽDC. The total net balance of these amounts represents a payable of CZK 628,456 thousand (2003: CZK 231,729 thousand) which is included within trade payables on the face of the balance sheet.

8. Post Balance Sheet Events

8.1. Spin-off of Part of Business into a Subsidiary

The Company spun off part of its business, comprising assets and liabilities at a net book value of CZK 287,483 thousand, and contributed the business part valued at CZK 391,490 thousand on the basis of an expert appraisal report into a newly formed subsidiary Traťová strojní společnost, a.s. This entity was recorded in the Register of Companies on 1 January 2005 with a share capital balance of CZK 380,000 thousand.

8.2. Other Events

With the exception of the events discussed in other note disclosures, no significant events occurred after the balance sheet date that would require adjustment to, or disclosure in, the financial statements.



> Significant Post Balance Sheet Events

Establishment of Traťová strojní společnost, a.s.

A separate legal entity, Traťová strojní společnost, a.s., was established on 1 January 2005 following its registration in the Register of Companies with České dráhy, a.s. being its founder and sole shareholder. The Company was established by the transformation of the former specialised business unit, Traťová strojní stanice Pardubice (Railway Machinery Station). The establishment of the separate legal entity fully complies with the mid-term strategy of České dráhy containing the plan to transfer service activities to subsidiaries.

The purpose of Traťová strojní společnost, a.s., is the provision of machinery and repair capacities as well as technological transportation during repairs, maintenance and investment activities on railways for České dráhy, a.s. and other construction firms in the Czech Republic and abroad. The Company primarily focuses on operating special railway machinery and equipment for the construction, renovation and maintenance of railways, including repairs and production of spare parts.

Amendment to Budgetary Tax Assessment Act No. 243/2000 Coll.

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 results in substantial changes in the system of public passenger transport funding implemented as a public service obligation in providing transport services in regions. Based on this amendment, regional authorities receive greater volumes of funds for regional budgets as well as more freedom in allocating regional budget funds to transport services because a substantial portion of the funds is no longer assigned to a special purpose. The Company's management is aware that this fact may have a negative effect on the planned results of České dráhy in the regional passenger transport segment.

Investment of Telematika o.z. to ČD - Telekomunikace a.s.

The extraordinary general meeting of ČD - Telekomunikace a.s. held on 23 November 2004 approved the increase of its issued share capital. The increase will be primarily executed by the investment of a portion of České dráhy, a.s. (Telematika branch) to ČD - Telekomunikace a.s. This action was approved on 15 December 2004 by the Steering Committee of České dráhy, a.s. As a result of the investment from Telematika o.z. as of 1 April 2004, České dráhy, a.s., will receive a majority share in ČD - Telekomunikace a.s. This transaction will complete the process of telematic service transformation in České dráhy that was going on in compliance with the approved strategic plans of the Company. At its extraordinary meeting held on 15 April 2005, the General Meeting of ČD - Telekomunikace a.s. decided to change its name to ČD Telematika a.s. (ČDT) effective 1 May 2005.

The Company's Statutory Bodies

On 1 March 2005, the Supervisory Board elected Mr. Petr David member of the Board of Directors with immediate effect. On 8 March 2005, the Board of Directors appointed Mr. Petr David Deputy CEO for the Infrastructure. As of 9 May 2005, Mr. Petr Kousal withdrew from the position of Chairman of the Board of Directors and CEO. Mr. Petr Kousal remained a member of the Board of Directors. As of 6 May and 9 May 2005, Mr. Jiří Kloutvor withdrew from his membership in the Board of Directors and from the position of Deputy CEO for Trade and Operations, respectively. On 9 May 2005, the Supervisory Board elected Mr. Jiří Kolář member of the Board of Directors with effect from 10 May 2005, recalled Mr. Josef Bazala from membership of the Board of Directors with effect from 9 May 2005 and elected him Chairman of the Board of Directors as of 10 May 2005. On 10 May 2005, the Board of Directors appointed Mr. Jiří Kolář Deputy CEO for Trade and Operations effective 11 May 2005, recalled Mr. Josef Bazala from the position of First Deputy to CEO and appointed him CEO as of 11 May 2005. On 25 May 2005, the Board of Directors decided to recall Jiří Kolář from the position of Deputy CEO for trade and operations effective 31 May 2005 and appointed him Deputy CEO for passenger transport as of 1 June 2005. On the same date, the Board of Directors appointed Mr. Rodan Šenekl the Deputy CEO for freight transport effective 1 June 2005. As of 3 June 2005, Mr. Petr Kousal resigned from his position as a member of the Board of Directors. On 7 June 2005, the Supervisory Board elected Mr. Rodan Šenekl member of the Board of Directors with immediate effect.



> Organizational Structure as of 31 December 2004

State
administration

Bodies of
České dráhy, a.s.

Steering Committee

General Meeting

Supervisory Board

Board of Directors

Director General of ČD

(KGŘ) Director General's Office
(O6) Regional Relations Department
(O17) Internal Audit and Inspection Department
(O18) Railway Transport Safety Inspectorate
(O31) Asset Trading Department
(GZ ČD) ČD Foreign General Representatives (7)
ČD Representative by the EU in Brussels

First Deputy Director General

(KI.N) Office of the First Deputy DG
(O5) International Department
(O10) Personnel Department ŽZ ÚPV
(O25) Legal Department
(O26) Strategy and IT Department VÚŽ
(O28) Environment Protection Department TELEMATIKA
(O30) Defence and Safety Department

Deputy Director General for Economy

(KEN) Office of the Deputy DG for Economy
(O1) Financial Department OPT
(O2) Steering of Economy Department ÚZV
(O4) Administration Department
(O8) Supply and Sales Department ZC (3)

Deputy Director General for Trade and Operation

(KNOP) Office of the Deputy DG for T&O
(TI) Technology Inspection OPR Director's Office Profile Activities Operations (6) UŽST (150) Profile Activities Administration Operations Passenger Transport Freight Transport
(O11) Infrastructure Operating Department
(O12) Rolling Stock Department DKV (8) DPOV (2)
(O16) Passenger Transport Department CK
(O21) Freight Transport Department ŽELSPED

Deputy Director General for Infrastructure

(KNDC) Office of the Deputy DG for Infrastructure
(O13) Civil Engineering Department SRDM TÚDC SDC (13)
(O14) Automation and Electrical Technology Department SŽE HZS
(O14) Automation and Electrical Technology Department TSS SŽG (3)
(O20) Infrastructure Functionality Department

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



> Statement of the Board of Directors

The Board of Directors of České dráhy, a.s., by resolution No. 686/2004 approved at its meeting held on 27 January 2004, decided that České dráhy, a.s. would not prepare a Report on Related Party Transactions.

In the opinion of České dráhy, a.s., 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.



> A List of Used Terms and Abbreviations

AEIF	European Association for Railway Interoperability	RID	Regulations concerning the International Carriage of Dangerous Goods by Rail
ATM	Asynchronous Transfer Mode	Ro-La	escorted railway transport of trucks
CER	Community of European Railways	SC	Passenger train category of highest quality (SuperCity)
CK	Travel Agency	SDC	Infrastructure Administration
ČD, s.o.	Czech Railways, state organization	SENA	System for preparation of timetables
ČD, a.s.	Czech Railways, joint-stock company	SRDM	Administration for Tourist and Accommodation Property
DATIS	Data and Information Services	SS	Civil Engineering Administration
DB	German Rail	SŽE	Railway Energy Administration
DKV	Rolling Stock Depot	SŽG	Railway Geodesy Centre
DPOV	Vehicle Repair Shop	SŽT	Railway Telecommunication Administration
EC	Passenger train category of higher quality (EuroCity)	SŽDC, s.o.	Railway Infrastructure Administration, state organization
EUROFIMA	European Company for the Financing of Railroad Rolling Stock	TERFN	Trans-European Network for Freight Transport
ETCS	European Train Control System	TSS	Track Mechanical Station
FIATA	International Federation of Freight Forwarders Associations	TÚDC	Technical Centre of Infrastructure
GSM-R	Global System for Mobile Communications-Railways	UIC	International Union of Railways
HZS	Fire Service	UNIPOK	Versatile ticket office
IC	Passenger train category of higher quality (InterCity)	ÚDIV	Central Steering of Wagons
ISOŘ	Information System of Operational Management	ÚPV	Company Education Institute
KMŽP	International Railway Traffic Inspection	ÚZV	Central Wagons Clearing
KPT	Inspection of Sales from Traffic	UŽST	Junction Station
OPŘ	Office of the Director for Trade and Operations	VÚŽ	Railway Research Institute
OPT	Traffic Receipts Clearing	ZC	Supplying Centres
OSŽD	OSJD – Organization for Railways Cooperation	ŽELSPED	Czech Railways Forwarding Company
PARIS	Sale and Reservation Information System	ŽSR	Railways of Slovak Republic
PKP	Polish State Railways	ŽZ	Railway Health Service
POP	Portable passenger ticket office		
PVP	empty privately owned wagons		

> Identification and Contact Data

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> Tax ID: **CZ70994226**
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