

Annual Report of the České Dráhy Group for the Year → 2006



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→ 2006



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mission, vision and goals of the company

002 → 003

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





profile of ČD, a.s. and the České dráhy Group

006 → 007

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

ČD's railway network is composed of almost 2,700 stations and stops throughout the Czech Republic. These are connected through a network of approximately 9,500 km of lines which are operated and maintained by ČD on a contractual basis. One third of the best performing lines are 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 thereon.

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

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

ČD continues to strengthen its position in the area of passenger railway transport within integrated transport systems intended to arrange for the provision of transport services in the territories of the individual Czech regions. With respect to freight transport, the volume of environmentally-friendly combined transport is increasing. The share of transit transport in the overall performance is

also on the rise. ČD ranks fourth in the field of international public railway transport of merchandise within member countries of the European Union.

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

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

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

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

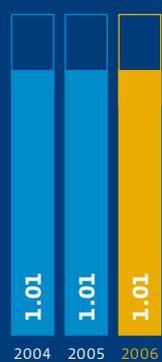
Jídelní a lůžkové vozy, a.s. (JLV) is a significant European company offering accommodation and catering services in railway passenger transportation. The company offers catering and retail services.

ESSENTIAL ECONOMIC RATIOS OF THE ČESKÉ DRÁHY GROUP AND ČESKÉ DRÁHY, a.s.

| ↓ Ratio | 2006 | ČD Group 2005 | 2006 | 2005 | 2004 | České dráhy, a.s. Index 06/05 |
|---|---------|------------------|---------|---------|---------|----------------------------------|
| Assets and liabilities (CZK million) | | | | | | |
| Total assets | 54,404 | 51,069 | 52,980 | 50,013 | 47,301 | 1.06 |
| Non-current assets | 44,367 | 42,222 | 43,740 | 41,689 | 38,729 | 1.05 |
| Equity | 35,703 | 36,543 | 36,447 | 37,151 | 37,576 | 0.98 |
| Profit or loss (CZK million) | | | | | | |
| Profit or loss from operating activities | -527 | -714 | -682 | -806 | -654 | 0.85 |
| Profit or loss for the period | -445 | -587 | -449 | -590 | -621 | 0.76 |
| Income (CZK million) | | | | | | |
| Total income | 49,377 | 46,080 | 48,051 | 45,428 | 45,982 | 1.06 |
| Sales of own products and services | 37,614 | 35,459 | 36,656 | 34,901 | 36,550 | 1.05 |
| Financial ratios | | | | | | |
| Turnover of assets (total income/total assets) | 0.91 | 0.90 | 0.91 | 0.91 | 0.97 | 1.00 |
| Indebtedness (total liabilities/total assets) | 0.31 | 0.25 | 0.31 | 0.25 | 0.20 | 1.24 |
| Liquidity (short-term financial assets/short-term payables) | 0.26 | 0.27 | 0.23 | 0.25 | 0.31 | 0.92 |
| Employees | | | | | | |
| Average headcount recalculated for full-time employees (number of employees) | 60,594 | 66,739 | 58,823 | 65,232 | 73,825 | 0.90 |
| Income per employee (CZK/employee) | 814,883 | 690,451 | 816,874 | 696,407 | 622,851 | 1.17 |
| Added value per employee (CZK/employee) | 260,081 | 239,094 | 246,728 | 230,710 | 224,363 | 1.07 |

FINANCIAL INDICATORS OF ČESKÉ DRÁHY, a.s.

EXPENSES/INCOME OF CZK 1



TURNOVER OF ASSETS



INDEBTEDNESS



LIQUIDITY



major events of 2006

ORGANISATIONAL CHANGES

→ On 21 March, ČD's Board of Directors approved the foundation documents of RAILLEX, a.s. with the equity investment of ČD amounting to 51 percent. The company is engaged in the storage of goods, handling of material, and transportation. The company was formed on 17 June 2006.

→ Pursuant to the decision of the European Commission in Brussels dated 22 June, České dráhy, a.s. became another shareholder of Jídelní a lůžkové vozy, a.s. The European Commission authorised the Czech National Property Fund to sell 38.79 percent of its shares in JLV to ČD.

→ The General Meeting of ČD-Telematika a.s. decided at its meeting held on 28 June to decrease its share capital in an effort to optimise the company's shareholder structure. The share capital of the company decreased by CZK 332,664 thousand to CZK 2,042,105 thousand. ČD, a.s. thus increased its equity investment in the company from the original 51 percent to 59.31 percent. The share capital was decreased by withdrawing shares from circulation and increasing the equity investment of České dráhy, a.s. as the majority owner of the company and further by purchasing treasury shares from minority shareholders from its own funds.

→ Pursuant to the resolution of ČD's Board of Directors dated 25 September, DPOV, a.s. was formed as of 1 January 2007. Following the adoption of the provisions of 27 September regarding the formation of DPOV, a.s., the activities of the DPOV Nymburk and DPOV Přerov executive units were discontinued as of 31 December.

→ Pursuant to the resolution of ČD's Board of Directors dated 7 November, a subsidiary Koleje Czeskie - a limited liability company – was formed on 18 December 2006.

→ On 13 December 2006, ČD, a.s., and its strategic partner, Deutsche Umschlaggesellschaft Schiene-Straße mbH, signed foundation documents of a subsidiary ČD-DUSS Terminál, a.s. The company is engaged in the operation of container terminals and related services. The company was formed on 1 March 2007 – ČD's equity investment is 51 percent.

→ With effect from 1 December 2006, ČD, a.s., as the parent company, announced a change in the structure of the consolidation group as a result of the change in the consolidation rules by adding Jídelní a lůžkové vozy, a.s. to the ČD structure. Given the significant influence in the company (38.79 percent), ČD opted for consolidation using the equity method.

BUSINESS ACTIVITIES

- On 16 January, a new centralised position of Central Directing of Wagons based in Česká Třebová was put into operation.
- On 2 May, České dráhy and Russian Railways (RŽD) signed a memorandum on cooperation in the transport of goods between Asia and Europe.
- On 4 May, ČD's Board of Directors approved the opening of a common control centre of ČD and Railion Deutschland in Děčín.
- On 1 June, ČD, a.s. dispatched "Vlaky plné úsměvů (Trains full of smiles)" for more than 400 disabled children coming from various parts of the Czech Republic. These trains took the children to the Zlín Film Festival.
- On 8 June, ČD Cargo dispatched the historically first intermodal transportation train of swap bodies between Lovosice and Hamburg in Germany. Reloading and clearance in Lovosice is secured by ČD itself.
- On 23 June in Hamburg, DB Railion and ČD, a.s. signed a Framework Contract for Cooperation in International Freight Transportation.
- On 9 November, BOHEMIAKOMBI, spol. s r.o. and České dráhy, a.s. were awarded the LOG-IN prize in the transportation services category for their common Bohemia Express II project.
- On 16 November, ČD received documents on the approval of 680 line units in terms of Technical Specifications of Interoperability from the certification entity – Železniční certifikační úřad (EBC – Eisenbahn Cert).
- On 10 December, ČD dispatched the first standard SC Pendolino trains from Prague to Bratislava and Vienna.
- In 2006, pursuant to the decision of ČD, a.s.'s Supervisory Board, ČD started to prepare the review of maintenance in respect of the communication and security facilities operated by SDC Brno and SDC Pardubice in the Brno–Česká Třebová route including the Skalice nad Svitavou–Velké Opatovice part and operated by SDC Brno on the Hodonín–Nedakonice route. Based on the concluded contract, this activity will be effected by AŽD Praha from 1 January 2007 to 31 December 2008.
- In 2006, ČD launched a pilot project of remote control and organisation of railway transportation in the second section of the national railway corridor between the Přerov and Břeclav stations. The entire section is operated from one control centre in Přerov. In 2007, the constructed system will be transferred to routine operation and will be further extended to the Polanka nad Odrou station.
- On 14 December 2006, construction work that is part of the Hlavní nádraží (Prague Main Train Station) renovation was initiated. The renovation will take five years to complete and the railway station will remain fully operational. The aggregate costs of the renovation amount to CZK 1 billion.



opening statement of the CEO

Dear Ladies and Gentlemen, and Business Partners,

I am pleased to state that this is the third time for me to present the opening statement of the České dráhy annual report to you. If an annual report is to reflect a company's operation, retrospect and vision for the future, then this annual report can certainly be referred to as a report on a changing and dynamic company.

In 2005, the Company began making significant changes in its management and business policy. The objective of the new management was to quickly boost the dynamics of the way ČD operates. We implemented basic adjustments in respect of its management almost immediately with a view to ensuring that ČD's operations can be provided with a firm foundation within the increasingly competitive environment. These adjustments focused on the clients' wishes, according to which a number of internal processes and services were adapted. The first results were seen as early as 2005 although the most significant portion of them fully crystallised in 2006. Throughout 2006, České dráhy enjoyed a significant increase in all performance indicators in respect of passenger and freight transport.

We became a company of change which keeps bringing new things to the market – new services, new vehicles, reconstructed railway stations and new client approaches. We became a company whose services are widely sought-after, and many of the people who did not consider the train as a desirable means of transport a year ago now regularly use our services. The Company also became an employer that was in demand. 2006 thus represented a period of turnover in many areas of the Company's activities, and at this time, I would like to discuss some of them in greater detail.

Probably the most visible changes that were implemented at ČD involved passenger transport which logically attracts the attention of the general public, as well as buyers of basic transport serviceability, i.e. individual regions and the Ministry of Transportation. Passenger transport showed excellent results in 2006. The transport performance and sales grew, and the number of solvent and economically attractive clients followed the same pattern. The Company managed to surpass 180 million trans-

ported passengers, and the year-on-year increase in the number of passengers who travelled with ČD exceeds 3 million. Hundreds of thousands of passengers used the SC Pendolino trains, which resulted in them travelling by railway again after many years. But also the number of passengers travelling to other remote places increased, even on the regional level. At the same time, our services were considerably modernised. Online sales offers expanded; the contactless chip Rail Plus In-card was introduced in advantageous customer fares, and the Company made an effort to make its service more technologically advanced and even more convenient for customers.

The modernisation of the rolling stock and railway infrastructure also played a crucial role. The Company was convinced that the growth in the number of passengers is directly proportional to the modernisation of its rolling stock and infrastructure. While the Company keeps searching for other means to accelerate the rolling park modernisation, a few dozen new or modernised vehicles were put into operation last year. In the area of regional and suburban trains, supplies of double-deck 471 units continued. These units acquired the name CityElefant during 2006, and a contract was entered into with the manufacturer regarding the supply of another thirty of these trains. Also, the Company newly introduced the Regionova motor units (around 20 pieces in the first year alone) into the local railway lines. The Regionova was also proof of new thinking in relation to customers and transport buyers. Within the Regionova project, apart from the new railway vehicles themselves, the Company managed to provide its buyers with a tool for promotion in individual regions. For the first time in the Czech Republic, trains carrying emblems of individual regions are seen on the rails and, for those on board, information on the given regions is available inside the train. This is an example of the added value the Company has managed to offer alongside its transport services.

The success of the Company's flagship, the CS Pendolino product, naturally dominates the long-distance passenger transport area. Two routes abroad, to Bratislava and Vienna, were added to the Prague-Ostrava route at the end of the last year. The SC Pendolino

brand became the symbol of change in the ČD passenger transport, and belongs to the most sought-after marketing brands on the Czech market. Almost forty modern classically designed Siemens railway vehicles started operating in 2006. ČD was able to complete the portfolio of its products with the Euronight brand, which is at the top in the segment of night lines on the European market, thanks to new wagon-lits.

In addition to the new vehicles, the modern rail infrastructure became the “wheel horse” of the passenger transport successes in 2006. Tábor, Prostějov and Zábřeh na Moravě are examples of towns where ČD and its partners introduced modern reconstructed railway stations that conform to the demanding check-in requirements of the twenty first century. A new railway station in Ostrava-Svinov, the most important railway junction in northern Moravia, was introduced as the most modern railway station in the Czech Republic. The image of modern and growing passenger railway transportation is complete if we also consider the continuing modernisation of railway corridors facilitating faster service between destinations on the main railway lines of the Czech Republic.

As with passenger transport, ČD's freight transport, operated under the ČD Cargo brand, underwent similar development. The focus of its last year was also on a marked increase in performance and sales. Furthermore, ČD strengthened its position as a leading EU freight transporter and took a number of important steps to boost its competitiveness. Following the implementation of the electronic toll system on the Czech motorways and roads, the competitive environment between the road and rail freight transportation finally, after years of waiting, reached a degree of balance. However, it was primarily ČD's successful and active business policy that supported development in the area of freight transport. The Company succeeded in acquiring new orders, and paid special attention to the growth in the area of combined transport. ČD was also an initiator of a number of activities aimed at linking railway transport with the rise of new industrial zones. Freight transport under ČD Cargo, is currently

viewed as a respected player on the European freight transportation and logistics market.

The growth of the performance and sales in passenger and freight transport, as well as continuing cost savings were positively reflected in the Company's overall financial performance. The best economic result in the Company's history was achieved in 2006. Economic successes of the whole ČD Group are then supported by positive results of the Company's subsidiaries that, as independent legal entities, are much better placed to pursue successful and profitable business activities. In 2006, the Company significantly strengthened its communication with customers and the public. Thanks to successful communication campaigns supported by real changes, the Company managed to reclaim many customers. As an example, we can mention positive responses to and, experiences with, SC Pendolino.

Dear Ladies and Gentlemen, and Business Partners,

The annual report you are now reading provides a great deal of positive information regarding the development of modern railway transport in the Czech Republic. It provides a summary of the huge efforts invested by all of the Company's employees, its subsidiaries and all those who contributed to the fact that the annual report includes numerous positive adjectives in relation to the Company. I would like to dearly thank all of you.



Josef Bazala

CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO



→ 1



→ 2



→ 3



→ 4



→ 5

BOARD OF DIRECTORS

Josef Bazala

→ 1

CHAIRMAN OF THE BOARD OF DIRECTORS (SINCE 10 MAY 2005)
AND CHIEF EXECUTIVE OFFICER (SINCE 11 MAY 2005), AGE: 50

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

Vladimír Filip

→ 2

MEMBER OF THE BOARD OF DIRECTORS (SINCE 7 MARCH 2006)
AND DEPUTY CEO FOR ECONOMICS (SINCE 17 FEBRUARY 2006), AGE: 39

Vladimír Filip graduated from the Faculty of Business Administration of the University of Economics in Prague where he specialised in the economics of transport. In 1998, he completed postgraduate studies at European Business School Schloss Reichartshausen, attaining a Master's Degree in International Management. In 1989, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed miscellaneous duties relating to finance and economics. Since 1996, he has been a Divisional Manager of the Financing and Economic Department of the Railway Infrastructure Division. Since 2003, he has been the Head of the Finance Division of the General Directorate of České dráhy, a.s.

Rodan Šenekl

→ 3

MEMBER OF THE BOARD OF DIRECTORS (SINCE 8 JUNE 2005)
AND DEPUTY CEO FOR FREIGHT TRANSPORT (SINCE 1 JUNE 2005), AGE: 49

Rodan Šenekl graduated from the Transport University in Žilina where he majored in railway transport operations and economics. In 1983, he joined the then Československé státní dráhy (Czechoslovak

State Railways) where he performed miscellaneous duties relating to railway operations and was responsible for the IT team. Between 1992 and 2005, he worked for: CAS Inc. Kanada as a sales manager; ICD s. r. o. as a sales manager; CONTAINER TRAIN BOHEMIA, s.r.o., Praha as the company's director and statutory executive; ČSKD Intrans as a manager of the Praha Žižkov trans-shipment station; CID International, a.s as a business manager; and European Rail Shuttle, s.r.o., Prague as the company's director and statutory executive.

Jiří Kolář

→ 4

MEMBER OF THE BOARD OF DIRECTORS (SINCE 10 MAY 2005)
AND DEPUTY CEO FOR PASSENGER TRANSPORT (SINCE 1 JUNE 2005), AGE: 43

Jiří Kolář graduated from the Faculty of Operations and Economics of the Transport University in Žilina. In 1983, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed miscellaneous duties relating to railway operations. Between 1993 and 1999, he worked as the stationmaster in Kladno. In 1999, he completed a postgraduate study at the University of Pardubice. Between 1999 and 2004, he was the director of OPŘ Ústí nad Labem.

Petr David

→ 5

MEMBER OF THE BOARD OF DIRECTORS (SINCE 1 MARCH 2005) AND DEPUTY CEO FOR RAILWAY INFRASTRUCTURE (SINCE 8 MARCH 2005), AGE: 48

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

Changes in the Composition of the Board of Directors

As of 15 February 2006, Ivan Foltýn ceased to be a member of the Board of Directors and the Deputy CEO for economics.

SUPERVISORY BOARD

Vojtěch Kocourek

CHAIRPERSON OF THE BOARD OF DIRECTORS, AGE: 47

Main employment and position: Ministry of Transportation of the Czech Republic, Deputy Minister. Participation in other bodies: Steering Committee of ČD, a.s.; Board of the State Fund of Transport Infrastructure.

Vojtěch Kocourek graduated from the Faculty of Civil Engineering of the Technical University in Brno in 1983. From 1983 to 1991, he worked at the Czechoslovak State Railways, Brno-jih Track Section Site, as a Railway Transport Engineer and Deputy Manager for Operations. From 1991 to 1996, he was employed by SEŽEV-REKO, a.s. as the firm's statutory executive. In 1996, he joined KPM CONSULT, a. s. as the CEO and the 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: 67

František Formánek graduated from the Faculty of Electrical Engineering of the University of Transportation Sciences. He is a partner at AŽD Praha s.r.o.

Tomáš Chalánek

MEMBER OF THE SUPERVISORY BOARD, AGE: 50

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

Karel Korytář

MEMBER OF THE SUPERVISORY BOARD, AGE: 57

Karel Korytář is a graduate of the Faculty of Electrical Engineering of the Technical University in Brno where he specialised in electrical networks and the energy industry. In 1981, he completed postgraduate studies at the School of Economics in Prague for classes for management organisers. He is a member of the Chamber of Deputies of the Parliament of the Czech Republic, deputy chairman of the Committee for Economy and a member of the Committee for Health.

Miroslav Kapoun

MEMBER OF THE SUPERVISORY BOARD, AGE: 61

Miroslav Kapoun was a member of the Parliament of the Czech Republic and the Vice-Chairman of the Economic Committee of the Chamber of Deputies of the Parliament of the Czech Republic until 15 June 2006.

František Vašítek

MEMBER OF THE SUPERVISORY BOARD, AGE: 60

František Vašítek graduated from the Faculty of Operations and Economics of the Transport University in Žilina where he specialised in the operation and economics of road and municipal transport. František Vašítek is the Chairman of the Board of Directors and CEO of Dopravní podnik Ostrava a.s. (Public Transport Enterprise). He is the Chairman of the Expert Commission of the Tramway Lines of the Association of Public Transit Companies of the Czech Republic.

Jaromír Dušek

MEMBER OF THE SUPERVISORY BOARD, AGE: 54

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

Jiří Kratochvíl

MEMBER OF THE SUPERVISORY BOARD, AGE: 59

Jiří Kratochvíl is a graduate of the Secondary Civil Engineering Technical School, where he specialised in ground construction. He is a Vice-Chairman of the Railway Trade Union.

Jan Bitter

MEMBER OF THE SUPERVISORY BOARD, AGE: 50

Jan Bitter graduated from the Philosophical Faculty of Palacký University in Olomouc where he specialised in adult education. In 2006, he attained a PhD at Palacký University. Since 1978, he has been an employee of Československé státní dráhy (Czechoslovak State Railways) and České dráhy, in the area of operation. He is the Chairman of the Business Committee of OSŽ (Railwaymen Union) at the Prague Rail Vehicle Depot and a member of the Business Committee of OSŽ (Railwaymen Union) for České Dráhy, a.s.

Changes in the Composition of the Supervisory Board

Kurt Mužík resigned from his position as a member of the Supervisory Board as of 14 February 2006.

organisational structure of the company as of 31 Dec 2006

STATE ADMINISTRATION ———— **Steering Committee**

BODIES OF ČESKÝCH DRAH, a.s. ———— **General Meeting**
Supervisory Board
Board of Directors

CEO of ČD

KGŘ CEO's Office
O3 Investment Dept
O5 International Dept
O10 HR Dept
O17 Internal Audit and Inspection Dept
O25 Legal Dept
O26 Strategy and IT Dept
O27 Communication Dept
ČD Representative by the EU in Brussels

Subsidiaries consolidated

Traťová strojná společnost, a.s. (based in Pardubice)
ČD-Telematika a.s. (based in Prague)
Výzkumný Ústav Železniční, a.s. (based in Prague)
Jídelní a lůžkové vozy, a.s.

Subsidiaries others

RailReal a.s. (based in Prague)
RAILREKLAM, spol. s r.o. (based in Prague)
ČD Generalvertretung GmbH Frankfurt nad Mohanem
ČD Reality a.s. (based in Prague)
Smíchov Station Development, a.s. (based in Prague)
ČD travel, s.r.o. (based in Prague)
Dopravní vzdělávací institut, a.s. (based in Prague)
RAILLEX, a.s.
Koleje Czeskie Sp. z o.o.

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

Deputy CEO for Economics

KEN Office of the Deputy CEO for Economics

O1 Financial Dept

O2 Steering of Economy Dept

O4 Administration Dept

O8 Supply and Sales Dept

OPT Traffic Receipts Clearing

ZC Supplying Centers (3)

Deputy CEO for Freight Transport

KNND Office of the Deputy CEO for Freight Tr.

O11 Infrastructure Operating Dept

O18 Rail Transport Safety Inspectorate

O21 Freight Transport Dept

GZ ČD ČD Foreign General Representatives (3)

UŽST Railway junction stations (56)

ŽELSPED ČD Forwarding

Deputy CEO for Passenger Transport

KNOD Office of the Deputy CEO for Passenger Tr.

O12 Rolling Stock Dept

O16 Passenger Transport Dept

DKV Rolling Stock Depots (8)

DPOV Vehicle Repair Shops (2)

Deputy CEO for Railway Infrastructure

KNDC Office of the Deputy CEO for Railway Infrastructure

O13 Civil Engineering and Infrastructure Operability Dept

O14 Automation and Electrical Technology Dept

O28 Environment Protection Dept

O30 Crisis Management and Safety Dept

O31 Assets Business Dept

ŽŽ Railway Health Services

TÚČD ČD Technical Centre

SŽE Railway Energy Administration

SDC Infrastructure Administrations (13)

HZS Fire Service

SŽG Railway Geodesy Centres (2)

We carry **89 million tons**
of freight in a reliable and
environmentally friendly
way





CD Cargo

WIKILOGISTICS
BY ORDER

NYK 06 39 96 5 9

report on the company's activities and assets – ČD, a.s. and the ČD Group

OPERATION OF FREIGHT TRANSPORT

2006 was a successful year for ČD's freight transport and haulage. Using more pro-active business activities and adoption of a number of measures intended to increase the efficiency of the freight transport, ČD transported 89.62 million tonnes of goods which is 6.8 percent more than in 2005, despite the limited number of railway freight wagons. The sales increased by 4.7 percent to the total of CZK 17.25 billion which is 773 million more than in 2005. The growth of the transported cargo was so significant that it exceeded the volume of transported goods in 2004.

2006 saw the end of the stagnancy in the metallurgical and steel industry. This situation resulted in the increased transportation of iron ore, dolomite limestone, coke and scrap iron. ČD transported 22.4 million tonnes of iron and machinery products, of which a considerable part included new cars. The year-on-year increase in the transportation of cars amounted to 13 percent: the result of the long-term cooperation with the automobile manufacturer Škoda Mladá Boleslav. In addition, the increase was due to the transportation of a newly-built Škoda industrial railway in Kvasiny with the cooperation of ČD, and the transportation of cars from the TPCA car manufacturer in Kolín. ČD experienced a decline in the transportation of chemical products where part of the transportation was assumed by private transporters focusing on the chemical industry. České dráhy responded to the pressure of competitors by increased quality and competitive prices and it was successful in re-acquiring certain customers. It managed to reverse the decrease in the transportation of timber and paper products. In 2006 ČD trains transported 500 thousand tonnes of timber more than in 2005. The increase in the transportation of timber was impacted by a natural disaster in Southern Bohemia in early 2006. ČD continued to transport intervention grain and it actively participated in the transportation of food and agricultural products. Despite the long winter, ČD was able to balance the decrease in the transportation of construction materials at the end of the year and transported 7.6 million tonnes of goods. In 2006, transportation of solid fuels was

a key part of its activities. ČD transported 15.34 million tonnes of brown coal and 14.67 million tonnes of black coal and coke. The year-on-year increase of 32.5 percent in coke transportation was significantly impacted by an increase in the production in metallurgical plants. It was not possible to manage more significant volumes of transportation and higher sales due to the shortage of railway freight cars predominantly for the transportation of iron, wood and solid fuels. By contrast, an active business policy managed to reverse the decrease in transit traffic which experienced a year-on-year increase of 13 percent. Another positive fact was that ČD retains a significant share in inland transportation (34.3 million tonnes of goods) despite the considerable competition of road transporters and other railway operators.

During the year, the pressure of customers towards the comprehensive provision of services and decrease in the price for the transportation continued as a result of low prices offered by road transporters. ČD thus had positive results with the existing products: system trains of conventional transportation from the Czech Republic abroad, as CARPÁTHIA Express to Romania and ADRIA Express to Rijeka were used more frequently. Therefore, in 2006, ČD introduced a new train ITALIA Express. The Company successfully continued in the transportation of iron scrap from the Czech Republic to Germany via previously established train connections. ČD continued to transport wood chips in special cargo trains and special containers for the wood processing companies Mondi Packaging Štětí and Stora Enso Ždírec nad Doubravou where ČD invested in the development of the railway siding area.

ČD, together with other partners, newly engaged in logistics and intermodal combined transportation business activities. Since June 2006, ČD has been offering services of the Lovosice terminal which provides the reloading and storage of containers, swap bodies or road semi-trailers and storage and further handling of goods in the logistical centre to its customers in the combined transportation. In 2006, ČD prepared the project of the logistical centre in Brno and other localities, including the project of offered services for the anticipated HMC automobile manufacturing plant in Nošovice and KIA in Žilina. During 2006,

transportation of ship containers, swap bodies and road semi-trailers via ČD's Lovosice terminal regularly increased. As compared to 2004 and 2005, the transportation of large containers grew by 24 percent and 9 percent, respectively. In cooperation with the operators of combined transportation and foreign railway transportation companies, ČD increased the number of its combined transportation from Prague, Mělník and Lovosice predominantly to naval ports such as Hamburg, Bremerhaven and Rotterdam, or inland terminals such as Bratislava, Budapest, Želechovice and Dunajská Streda.

During 2006, ČD adopted a number of business measures with the aim of developing new transportation. Among others, ČD created a motivational programme for the ČD, a.s. sales representatives in freight transport and extended marketing activities. The offer of the ČD freight transportation and haulage was presented on a new internet website www.cdcargo.cz, in the ČD Cargo company magazine, on professional transportation trade fairs abroad (Milano, Paris, St. Petersburg), in a number of professional periodicals, and as part of the conference at Špindlerův Mlýn.

In order to maximise transportation volume and sales, ČD negotiated with other railway operators, including foreign companies. ČD took part in a number of international projects focused on the support of the development in the international freight transport, e.g. the A-B Landbridge (Adriatic sea – Baltic sea) project or EuroSIWAL (project of the transportation system of individual shipments as a direct competitor to road transportation), UIC DIOMIS (development of combined transportation) or Dedicated Freight Corridors (project of construction of European freight corridors).

In addition to an active business policy and expansion of the services portfolio, the conditions underlying a further development of ČD's freight transport include the innovation of the rolling stock. In 2006, several hundreds of new and modernised cars were put into operation. However, the number could not satisfy all customer needs predominantly due to the limited financial possibilities. More significant investments in rolling stock will follow in 2007.

In 2007, the following factors impacted the results of freight transport:

- shortage of vehicles and drivers in road transport, and the introduction of the toll system at selected roads and therefore the anticipated increase in road transport prices;
- continuing growth of the economy and related development of international combined transportation and conventional transportation; and
- spin-off of ČD freight transportation into the subsidiary ČD Cargo with the possibility of self-financing and reinvestments in its own development (vehicles, terminals, new services).

ČD Forwarding

SPEDICE ČD (ČD Forwarding) enables the provision of high quality dispatch services in both inland and cross-border railway freight transport. SPEDICE ČD is a branch of ČD, operating under the ŽELSPED trademark. It was established in 1992 and has been responsible for the 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 in the European forwarding and shipment system and is a member of the International Federation of Freight Forwarders Associations (FIATA) and the Association of Forwarding and Logistics of the Czech Republic.



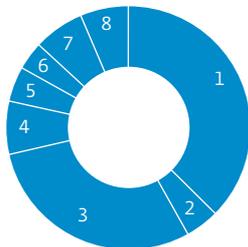
FREIGHT TRANSPORT

| ↓ INDICATOR | UNIT | 2006 | 2005 ^{*)} | 2004 ^{*)} | INDEX 06/05 |
|--|-----------------------|---------------|--------------------|--------------------|-------------|
| Total freight traffic | mil. tonnes | 89.62 | 83.92 | 87.75 | 1.07 |
| Sales from freight traffic ^{**)} | CZK mil. | 14,982 | 14,423 | 15,219 | 1.04 |
| Total sales from freight transport ^{**)} | CZK mil. | 17,252 | 16,479 | 17,679 | 1.05 |
| Total income from freight transport ^{**)} | CZK mil. | 17,436 | 16,728 | 17,856 | 1.04 |
| Expenses on freight transport | CZK mil. | 15,739 | 14,779 | 15,488 | 1.06 |
| Payment for the use of the infrastructure | CZK mil. | 4,364 | 4,200 | 4,341 | 1.04 |
| Profit/loss from freight transport | CZK mil. | 1,697 | 1,949 | 2,368 | 0.87 |
| Carriage rate per tonne | CZK per tonne | 167.17 | 171.87 | 173.43 | 0.97 |
| Tariff tonne kilometres of ČD Cargo | mil. ttkm | 16,445 | 16,033 | 16,321 | 1.03 |
| Carriage rate per tariff tonne kilometre | CZK per ttkm | 0.91 | 0.90 | 0.93 | 1.01 |
| Total ČD Cargo gross tonne kilometres | mil. gross km | 32,355 | 30,950 | 32,149 | 1.05 |
| – ČD Cargo gross kilometres in electric traction | mil. gross km | 29,410 | 28,163 | 29,144 | 1.04 |
| Total ČD Cargo train kilometres | thousands of train km | 32,246 | 32,553 | 34,922 | 0.99 |
| – ČD Cargo train kilometres in electric traction | thousands of train km | 26,492 | 26,571 | 28,280 | 1.00 |
| Total ČD Cargo train weight | tonne/train | 1,003 | 951 | 921 | 1.05 |
| Average carriage distance | km | 183.5 | 191.1 | 186.0 | 0.96 |
| Empty running/loaded ratio | % | 71.33 | 73.26 | 73.62 | 0.97 |

^{*)} The figures from the separate accounting books held for the operation of railway freight transport for 2004 and 2005 were audited in compliance with Section 10 of Act No. 77/2002 Coll., as amended. The figures for 2006 have not been audited.

^{**)} Sales from freight traffic include income from the freight transport of goods. Total sales from freight transport also include, apart from sales from the transportation of goods, income from related activities associated with freight transport. Total income from freight transport is included in the sum of sales from freight transport and specific-purpose grants (e.g. intermodal combined transport).

SHARE OF COMMODITIES IN ČD, a.s.'s TRANSPORT OF MERCHANDISE IN 2006 (AS OF 6 APRIL 2007)



| ↓ ČD FREIGHT TRANSPORT 2006 | TONNES | % |
|--|-------------------|------|
| 1 Solid fuels | 30,009,724 | 36.9 |
| 2 Liquid fuels and products from crude oil | 3,598,516 | 4.4 |
| 3 Ores, iron, steel and machinery products | 22,405,900 | 27.5 |
| 4 Construction materials and minerals | 7,634,362 | 9.4 |
| 5 Timber and wooden products | 4,676,382 | 5.8 |
| 6 Agricultural products and food | 2,043,132 | 2.5 |
| 7 Combined intermodal transport | 5,875,065 | 7.2 |
| 8 Other merchandise | 5,126,037 | 6.3 |
| Total ČD freight traffic without PVP^{*)} | 81,369,118 | |
| PVP ^{*)} | 8,252,331 | |
| Total ČD freight traffic including PVP^{*)} | 89,621,449 | |

^{*)} empty privately owned wagons



We have transported
180 million passengers



PASSENGER TRANSPORT

In 2006, the number of transported passengers increased – ČD has achieved the best results since its formation. The positive trend was seen in the system of funding railway transportation within the remit of individual customers – regions and the Ministry of Transportation. However, in the event of insufficiently-used lines, customers prefer bus transportation with respect to its greater variability and lower economic demands. Customers require the integration not only of quantity indicators, but also explicitly defined criteria of service quality that include timeliness, adherence to planned arrangement, adherence to waiting periods, quality of rolling stock (operability of doors, windows, heating, cleanliness of cars, equipment of restrooms, filling with water, operability of information systems, etc.) including sanctions for non-adherence to these criteria in the contracts on transportation.

All contracts for the provision of public transport obligation treat ČD, as a transport operator, regardless of the non-adherence of quality criteria in connection with the operation of infrastructure. Concurrently, the impact of sanctions arising from the ownership of infrastructure is referred to in the contractual terms between ČD, as a transport operator and operator of the infrastructure, and SŽDC, s.o., as the owner. As part of the railway timetable, regional and semi-fast trains are operated based on the order of regions; fast trains and express trains, with some exceptions, have been ordered by the State (Ministry of Transportation) since the change in the 2006/2007 railway time-table (fast train on the Jeseník–Olomouc route). Trains of the IC, EC and SC category were fully operated at the business risk of ČD in 2006.

When securing railway transport connections, the change in the legislation of the Czech Republic enables the holding of a tender although it is not explicitly required. In 2006, ČD took part in tenders in the Liberec and Karlovy Vary regions; it won the tenders announced by the Ministry of Transportation (Pardubice–Liberec and Plzeň–Most, announced in 2005) and a tender announced by the Karlovy Vary region (Cheb–Hranice v Č. and Cheb–Luby

u Chebu). Following the results of the tender held in 2005, the Karlovy Vary region did not order the operation of transportation at the Karlovy Vary d. n.–Mariánské Lázně railway line at the end of the year. Other performance in the Karlovy Vary region (excluding the 146, 148, 149 and 145 lines) are operated by ČD until 2010 based on the result of an open tender which was announced for the operation of these railways at mid-2006. The tender in the Liberec region for the operation of the 034, 035 a 036 railway routes was cancelled from the beginning of the 2006/07 timetable. In 2006, ČD continued in concluding long-term contracts for the provision of transportation, from three years (Ústí nad Labem region) – to 15 years (Hradec Králové region). A number of contracts acquired the form of contracts for an indefinite period of time that are amended.

In 2006, ČD was active in continuing the development of integrated public transport systems (IDS) in individual regions; the South-Moravian region (IDS-JMK), and Hradec Králové (IREDO) which saw huge development, the Olomouc region (IDSOK) and the Moravian-Silesian region (ODIS) which saw an expansion. The trend of growing performance continues in the Prague integrated public transport system (PID). Via the integrated public transport system, ČD is strengthening its positions on the regional passenger transportation market; however, direct sale to passengers stagnates and can hardly be allocated, the share of sales from IDS in the sales of the ČD fares amounted approximately to 6 percent. The IDS system is being prepared in the Pardubice region.

2006 saw the continuing trend of providing the train staff with electronic devices for the issuance of tickets in trains (POP). During 2006, ČD further developed the service of electronic ticket sale via the internet eShop ČD (providing sales of inland tickets including reservations for all trains in the SC, EC and IC categories including tickets from and to Bratislava for SC 134/135 Slovenská strela trains).

During the year, tariff TR 10 was adjusted with respect to In-karta Rail plus – integration of percentage amounts of discounts for customer fares to common fares and for return tickets and reservation documents. At the beginning of the 2006/2007 time-table, the

range of ČD's tariff offerings was expanded to include an electronic ticket "eLiška" (eFox), which brings a very attractive offer for passengers while boosting the demand for services offered by e-shop and concurrently for the ownership of the In-karta Rail plus card.

Passenger transport in tilting trainsets of the 680 series saw other developments, as an integrated product of the SC category at the Praha–Ostrava route with a guaranteed transportation time and a system of related services including connection to air transportation. At the end of the year, this product was extended to Bratislava and Vienna.

The ongoing renovation of the rolling stock is insufficient with respect to both the number and its timing. Delays in the supplies of cars of traditional construction do not allow for compliance with the international commitments of ČD and thus adversely impact the economy of the operation of individual connections. In addition, the pace of replacing the old suburban sets with 471 series does not allow for the fulfilment of customer transportation demand.

A similar situation applies to the supplies of other vehicles not only for regional transportation, but also for other large agglomerations with the need for strong suburban transportation. The most significant item in the renovation of the rolling stock includes the start of supplies of the Regionova modernised sets. The planned supplies of new Siemens coaches of all classes (A, B and WL) gradually experiences significant delays that will significantly impact increased comfort as late as in 2007.

The system of small delivery transport called ČD-Kurýr has also experienced certain development. In 2006, 244 stations were included in the system fully covering the demand for this service.

In 2006, all basic indicators of passenger transportation saw a year-on-year increase, sales of passenger traffic increased by CZK 540 million, the number of passengers increased by 2.7 million, and transportation output increased by 256 million passenger kilometres.



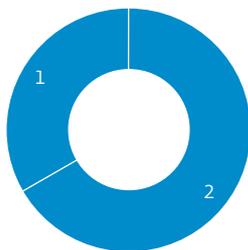
PASSENGER TRANSPORT

| ↓ INDICATOR | UNIT | 2006 | 2005 ^{*)} | 2004 ^{*)} | INDEX 06/05 |
|--|-----------------------|----------------|--------------------|--------------------|-------------|
| Transportation of passengers | mil. of passengers | 180.94 | 178.21 | 178.82 | 1.02 |
| Sales from passenger traffic ^{**)} | CZK mil. | 5,473 | 4,933 | 4,716 | 1.11 |
| Sales from passenger transportation ^{**)} | CZK mil. | 5,913 | 5,438 | 5,301 | 1.09 |
| Other sales from major operations | CZK mil. | 150 | 142 | 135 | 1.06 |
| Expenses on passenger transport | CZK mil. | 16,572 | 15,914 | 15,457 | 1.04 |
| Payment for the use of the infrastructure | CZK mil. | 1,598 | 1,484 | 1,469 | 1.08 |
| Settlement of loss from payables arising from community services | CZK mil. | 7,243 | 7,335 | 7,178 | 0.99 |
| Loss on passenger transport (including its settlement) | CZK mil. | -3,266 | -2,999 | -2,843 | 1.09 |
| Loss on passenger transport (without settlement) | CZK mil. | -10,509 | -10,334 | -10,021 | 1.02 |
| Passenger kilometres | mil. pass. km | 6,887 | 6,631 | 6,553 | 1.04 |
| Average transport distance | Km | 38.07 | 37.21 | 36.65 | 1.02 |
| Income rate per person | CZK/person | 30.25 | 27.68 | 26.37 | 1.09 |
| Income rate per passenger kilometre | CZK/pass. km | 0.79 | 0.74 | 0.72 | 1.07 |
| Train kilometres of passenger transport | thousands of train km | 115,523 | 113,157 | 109,311 | 1.02 |
| – train km electric engines | thousands of train km | 54,391 | 51,897 | 49,681 | 1.05 |
| Number of passengers per train | Passenger/train | 59.62 | 58.60 | 59.95 | 1.02 |

^{*)} The figures from the separate accounting books held for the operation of railway passenger transport for 2004 and 2005 were audited in compliance with Section 10 of Act No. 77/2002 Coll., as amended. The figures for 2006 have not been audited.

^{**)} Sales from passenger traffic include sales relating directly to the transportation of passengers and luggage. Apart from the passenger traffic, sales from passenger transportation include revenues from associated activities relating to passenger transport.

SHARE OF FARE TYPES IN PUBLIC TRANSPORT



| | |
|-------------------|-----|
| 1 Time-based fare | 29% |
| 2 Individual fare | 71% |



A photograph of a railway infrastructure at sunset. The scene is filled with a complex network of overhead power lines and support structures. The sky is a mix of orange, pink, and blue, with the sun low on the horizon. Several tall, dark metal poles are visible, some with lights that are glowing. In the foreground, there are several parallel railway tracks. The overall atmosphere is industrial and serene.

We ensure the operability
of the **9,500 km**
railway lines

RAILWAY INFRASTRUCTURE OPERATION

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

PROVISION OF RAILWAY INFRASTRUCTURE FUNCTIONALITY

2006 was the first year of the second three-year contractual relationship between ČD and the Railway Infrastructure Administration, the state organisation ("SŽDC"), and also the year of quality change in reporting activities that are provided by ČD for SŽDC. For the current three-year period, the companies agreed on the transition from accounting reporting to reporting by invoicing of performance.

ČD, secured the functionality of 9,496 kilometres of railway lines, of which 1,460 kilometres consist of corridor lines and 4,873 of other state country-wide lines. The remaining lines were regional. Within these lines, ČD managed 8,397 crossings, 6,697 bridges, 18,587 culverts, 2,300 walls and 154 tunnels.

In 2006, ČD worked together with SŽDC in the development of railway lines. One example is provided by the participation of ČD in dealing with operating interoperability and cooperation within the UIC infrastructure forum. As for the development at the local level, České dráhy supported by SŽDC and co-financed by SFDI assigned the second stage of the Security in the Railway Tunnels project and continued to increase the level of transportation security at railway crossings.

In compliance with the conditions of the contract entered into between ČD and SŽDC, České dráhy assured the operability of the railway route and participated in modernising and optimis-

ing international transit corridors. Given the extensive floods in spring 2006 that caused extensive damage to the transport infrastructure and predominantly to the railway network operated by ČD, the priority was to repair the damage caused by the flooding and thus assure the operability of the railway route.

In addition to provided funds, SFDI provided extraordinary funds for repairs of the most serious damage. These funds contributed to ČD complying with quality parameters in the field of assurance of the operability of the railway route defined in the contract entered into between ČD and SŽDC for 2006.

Infrastructure Modernisation and Optimisation

Modernisation and optimisation work was carried out in the First Transit Corridor in the Ústí nad Labem railway junction and on the Břeclav–Lanžhot route.

The modernisation of the Ústí nad Labem railway junction in 2006 resulted in the completion of 1.075 km of station tracks in the Ústí nad Labem-jih station, 0.615 km of station tracks in Ústí nad Labem-passenger station, and 2.174 km of station tracks in the Ústí nad Labem-sever station. A total of 3.864 km of station tracks were modernised in the Ústí nad Labem railway junction. The modernisation of the railway junction will continue in 2007. In addition, the Břeclav–Lanžhot route in the First Transit Corridor in the aggregate length of 6.223 km of double track line was modernised.

In 2006, modernisation and optimisation continued on the linking track between the First Transit Corridor and the Second Transit Corridor (Česká Třebová–Přerov) in the following parts: Krasíkov–Zábřeh, Zábřeh–Červenka, Olomouc–Přerov. A total of 4.140 km of double track lines were modernised on the Hoštejn–Zábřeh na Moravě route and part two of station tracks of 0.096 km was modernised in the Zábřeh railway station. The whole Krasíkov–Zábřeh na Moravě route was completed following the finalisation of these sections.

In 2006, the construction of the Zábřeh na Moravě–Červenka route continued by the completion of the Mohelnice–Lukavice part of 4.430 km of double track line, the Mohelnice–Moravičany part of 1.214 km of the double track line, and modernisation of 1.985 km of principal station tracks in the Mohelnice railway station.

The construction of the Olomouc–Přerov route continued in 2006 by the completion of the Brodek u Přerova–Dluhonice part of 3.225 km of the double track line and modernisation of principal station tracks in the Grygov and Brodek u Přerova railway station of 3.784 km of the principal station tracks. A total of 13.009 km of the double track line and 5.865 km station tracks were completed on the linking track of the First and Second Transit Corridor in 2006.

Remote controlling from the dispatching centre in the Přerov railway station of the Přerov–Břeclav route was put into operation on the Second Transit Corridor in 2006.

In 2006, the modernisation and optimisation of the Third Transit Corridor was initiated by the start of the construction on the Plzeň–Stříbro route in the following parts: Plzeň–Jižní předměstí–Plzeň–Křivice and Plzeň–Křivice–Kozolupy. A total of 2.244 km of the double track line was modernised in the Plzeň–Jižní předměstí–Plzeň–Křivice part, 2.714 km of the principal station track in the Plzeň–Křivice railway station, 1.628 km of other station tracks and 4.739 km of the double track line in the Plzeň–Křivice–Kozolupy part were modernised.

A total of 6.983 km of the double track line and 4.342 km of station tracks were modernised in the Third Transit Corridor.

In 2006, the modernisation of the Fourth Transit Corridor continued by the construction of the Praha–Hostivař–Strančice route in the Praha–Uhřetěves–Strančice part. The route will be finished in 2007. Principal station tracks of 6.100 km in the Praha–Uhřetěves railway station and 1.269 km of principal station tracks and 1.246 km of other station tracks were modernised. A total of

8.615 km of station tracks were modernised in the Fourth Transit Corridor in 2006.

The construction of the “New Connection” continued in the Prague railway junction. At the end of the first half of 2006, the two tunnel tubes under the Vítkov hill were cut on the Praha–Libeň–Praha hl.n. route and the construction of the elevated railway that will connect both tunnels with the Praha hl.n. railway station continued. The construction of the Second Track of the Praha–Libeň–Praha Masarykovo route of 2.754 km was completed. A total of 55.204 km of railway tracks and 22.686 km of station tracks were modernised on the corridor routes operated by ČD in 2006.

Infrastructure Reconstruction

During the first half of 2006, finishing work on the electrification of the Vojkovice–Kadaň route was effected and subsequently the entire Karlovy Vary–Kadaň part was put into electrified operation. At the end of 2006, work on the electrification of Háj ve Slezsku–Opava–východ part was completed and subsequently the entire Ostrava–Svinov–Opava–východ route was put into electrical operation.

As part of the rationalisation of the infrastructure operation on the out-of-corridor railway routes, the remote controlling of the Plzeň–Žatec route was put into operation. All railway stations on this route are controlled from one dispatching centre located in the Blatno u Jesenice railway station. At the end of 2006, the renovated Odbočka Jeneček–Středokluky route which serves as an alternative route for supplying the Prague Ruzyně airport with aircraft fuel was put into the testing operation.

BUILDING ADMINISTRATION

In 2006, ČD administered 8,860 buildings of 18,157,320 m³ built-up area (hereinafter 'BA') of which 17,254,044 m³ of BA in operating premises and 903,276 m³ of BA in the residential premises. ČD administered 4,429 apartments of which 1,539 apartments in residential premises and 2,890 apartments in operating premises.

In accordance with the Contract on Operability and based on mandate contracts, ČD administered 7,024 buildings owned by SŽDC with the total built-up area of 6,992,907 m³ of which the built-up area of operating premises was 3,715,538 m³, 3,277,369 m³ of apartment buildings. ČD administered 10,692 apartments of SŽDC of which 9,756 apartments in residential buildings and 936 apartments in operating premises.

A number of investments and renovations were implemented and completed in 2006. Major effected and completed investments and renovations included the renovation of the station building in the Ostrava-Svinov railway station, the renovation of the Šumperk station building, construction of the railway junction in Zábřeh na Moravě, renovation of the Prostějov railway station – second phase, public restroom for passengers in the Kojetín railway station, renovation of the station building in the Trutnov railway station, renovation of the station building in the Doksy railway station, renovation and annex building of the station building in the Bučovice railway station, renovation of the station building in the Stříbro railway station, renovation of the station building in the Třemešná railway station, renovation of the station building at the Rumburk railway station, renovation of the station buildings at the Batelov railway station, renovation of the station building at the Kroměříž railway station, renovation of the station building at the Litice nad Orlicí railway station, construction adjustments to the station building at the Hrochův Týnec railway station, construction of the hall for the Fire Brigade equipment at ONJ Praha, construction of a sewage system at the Liberec railway station and the construction of the sewage system at Dolní Lipka railway station, etc.

The passenger ČD LOUNGE waiting rooms in the Brno hl. n. railway station and Praha-Holešovice railway station were constructed and completed.

To improve its barrier free access, for example, the Kroměříž railway station was adjusted, lifts for the barrier-free access to platforms were constructed in the Brno hl. n. railway station, barrier-free restroom was constructed at the Zdice railway station.

As part of the renovations of SŽDC's assets, renovations of the Cebiv, Třemošná u Plzně, Plzeň-Skvrňany, Točnick stations were made.

ČD prepared a draft of Collection of Work and Outputs entitled "Selected prices of maintenance work and repairs on the railway route", Section "Buildings", which became effective for the reporting of repairs and maintenance of SŽDC's buildings after being approved by SŽDC and SFDI.

With respect to information systems, the ESPOS buildings and utility networks recording system for maintaining the records of SŽDC's assets was adjusted.

With respect to the records of ČD's real estate, the implementation of the RE SAP R/3 module continued in 2006 according to the long-term project. The system connects the records of premises with the records of rented units. Work on dealing with controlling the real estate in the RE SAP module continued.

SAP R/3 CONTROLLING MODULE OF THE RAILWAY INFRASTRUCTURE

The implementation of the controlling module (CO) proceeds on the basis of a long-term project in all product verticals of ČD. The SAP R/3 CO module is customised by ČD-T, the advisory departments of ČD-T and Deloitte are assisting with the implementation of controlling. The principal task of the CO department of the railway route is to assure the controlling operation in the railway route vertical and relations to other SAP R/3 modules: FI, FI-SL, AM and RE.

In 2006, the following stages of the implementation of controlling were realised:

- Completion of the acquisition of standing data;
- Stabilisation (update of documents, code lists, data, testing of data, etc.);
- Settlement of selected procedures (predominantly for the RE module);
- Pilot settlement of outputs in the selected output unit and CO closing (SDC Praha).

In 2007, the development stage of selected performances to further units will continue, predominantly with emphasis on the need to transfer data to the RE module for the real estate controlling. By completing this stage in the second quarter of 2007, the full operation of controlling will be achieved. It will enable comparing the profitability of the centres and profit centres and the established rates on the type cost centres as well as enable the reviewing of the correct allocation of costs to individual buildings and further assessment.

OPERATIONAL MANAGEMENT OF TRAIN CIRCULATION AND THE ORGANISATION OF RAILWAY TRANSPORT

The operator of the railway infrastructure carries out the requirements of the operators of the railway passenger and freight transportation. In the ČD structure, it is represented by the Operational Management and the Organisation of the Railway Transport Department (O11). The department has to comply with the conditions of the efficient use of the railway capacity, economic use of all means, and assurance of the security of operations.

Operational management is responsible for organising operational work and receiving feedback in performing control and analytical activities. In 2006, several tasks were set for the management of operations. The first task was to assure faultless transport of goods in the continuing trend of growing economy, not only in the inland transportation, and to provide maximum

satisfaction of increasing requirements for the scope of international transportation. The second task is to eliminate the impact of closures which reached its maximum in 2006 on the operations to the highest level possible.

ČD already took these aspects into account in the preparation of the railway timetable for the 2005/2006 period which was in effect from 11 November 2005 to 9 December 2006 as the timeliness of transportation becomes one of the decisive criteria. In these aspects, the role of operational management is of key importance. The operations of the railway route had to focus on quality rather than quantity, predominantly due to the changes in the production regime where the JIT system is already in use: the transported goods are sent directly to the production cycle without any period of storage.

Other priorities included improving the quality of passenger transport, predominantly international transport, which would not be possible without the dispatching functions working properly on all levels. A number of technical, technological and organisational measures were adopted to minimise potential train delays. Despite all measures and a number of on-the-spot measures, there were certain delays in the railway timetable. They occurred predominantly during the winter period when weather changes affected adherence to the time-table.

In addition, an enormous number of closures occurred in the spring and summer months which, due to unfavourable weather at the beginning of 2006 and the necessity to comply with the set work schedule, resulted in the formation of bottlenecks and significantly impacted the adherence to the railway time-table. In addition, the impacts of failures in the security system, failures in the management of the railway route and failures of propelling and transported vehicles must also be mentioned.

In the first and second half of 2006, the fulfilment of the railway timetable reached 88.5 percent and 86.8 percent, respectively; as a whole the timetable was fulfilled at 87.6 percent.

The operational management did not lag behind in the use of advanced technologies. Informing passengers about the time



and position of trains using the on-line system became a routine procedure in ČD, which shows that ČD was not behind the railway companies in other developed countries in introducing new technologies regarding train security while decreasing staffing levels. In the last quarter of 2006, the remote controlling of the security system from the dispatching centre in Přerov for the Přerov (exclusive)–Břeclav (exclusive) route was gradually activated. The Moravský Písek, Bzenec-Přívov and Rohatec railway stations remain managed locally on the above railway route by the end of 2006 and will likely continue to be until 1 April 2007.

Another route which was included in the remote controlling security system is the Kadaň (exclusive)–Karlovy Vary (exclusive) route where it was put into operation on 22 May 2006. In addition, the remote controlling of the security system on the Plzeň hl.n. (exclusive) – Žatec-západ (exclusive) route was activated.

The coordination of closures in 2006 was not easy in any respect. The investor, SŽDC, commenced a large number of constructions intended for optimisation, modernisation and electrification of certain sections.

Most closures occurred in the following parts: Lanžhot–Břeclav, Dluhonice–Olomouc hl. n., Červenka–Zábřeh na Moravě, Zábřeh na Moravě–Krasíkov, New Connection in the Prague railway junction, optimising the Ústí nad Labem railway junction, optimising the Plzeň–Stříbro route, optimisation the Praha-Uhřetěves–Strančice route, electrification of the Opava-východ–Ostrava-Svinov route, electrification of the České Budějovice–České Velenice route, renovation of the Jihlava–Veselí nad Lužnicí route and optimisation of the Nezamyslice–Pivín route.

In 2006, Department 11 provided services for more than 50 transport operators as part of its duties of the railway infrastructure operator.

In the process of the allocation of the railway infrastructure capacity and paths, ČD actively participated in the European activities for improving and facilitating access to the infrastructure as part of the Rail Net Europe organisation. As one of the first railway routes in Europe, ČD successfully started to work

with IS Pathfinder which provides data exchange in the preparation of the annual railway timetable. In the ad-hoc allocation of train paths, ČD actively participated in preparing and putting into operation the first stage of IS ISOŘ KADR, the aim of which is to facilitate and make more transparent the individual activities of all participating entities in the allocated infrastructure capacity and train paths and assist in optimising the use of the railway infrastructure capacity.

Significant activities include cooperation in the ADPV project, the aim of which is to provide full monitoring of the train ride with billing accuracy and thus provide a condition for the automated billing of fees for the use of the infrastructure. To extend the cooperation of individual components, another stage of the APM Transport diary application went forward which, together with GTN, acquires immediate and accurate information on the current operations of trains on remote controlled routes.

With respect to the introduction of controlling in ČD in 2006, Department O11, which represents the top of the product vertical in the operational management and organisation of railway route transportation, actively participated in the settlement of provided transfer outputs of propelling vehicles carried out by employees of the product vertical of operational management for the end users of the above outputs that include product verticals of passenger and freight transport. As part of the company-wide project, the pilot operations of closing work in controlling for the pilot unit were successfully initiated. The achieved results do not significantly vary from the anticipated figures and provide good conditions for the launch of the routine operations.

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

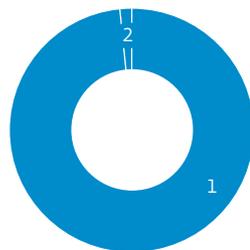
OPERATION OF TRACKS

| ↓ INDICATOR | UNIT | 2006 | 2005 ^{*)} | 2004 ^{*)} | INDEX 06/05 |
|--|------------------------|------------------|--------------------|--------------------|-------------|
| Income from infrastructure operation | CZK mil. | 11,591 | 11,418 | 11,506 | 1.02 |
| Results of operation | CZK mil. | -1,316 | -1,273 | -750 | 1.03 |
| Length of maintained and operated lines | km | 9,496 | 9,513 | 9,511 | 1.00 |
| – of which are electrified | km | 3,041 | 2,997 | 2,982 | 1.01 |
| – of which are double- and multiple-track lines | km | 1,851 | 1,868 | 1,866 | 0.99 |
| Total length of maintained tracks | km | 16,049 | 16,053 | 16,157 | 1.00 |
| Train kilometres (all operators) | thousands of train km | 149,940 | 147,634 | 145,857 | 1.02 |
| Gross tonne kilometres (all operators) | mil. of gross tonne km | 52,316 | 50,068 | 50,553 | 1.04 |
| Axle kilometres (all operators) | mil. axle km | 4,329 | 4,175 | 4,262 | 1.04 |
| Number of monitored trains | | 5,004,623 | 4,820,467 | 4,789,585 | 1.04 |
| Adherence to the schedule of train traffic for the monitored trains ^{**)} | % | 87.6 | 91.7 | 91.7 | 0.96 |
| Time delays of higher quality trains | min./100 train km | 1.7 | 2.3 | 2.1 | 0.74 |

^{*)} The figures from the separate accounting books held for the operation of the railway infrastructure for 2004 and 2005 were audited in compliance with Section 10 of Act No. 77/2002 Coll., as amended. The figures for 2006 have not been audited.

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

SHARE OF TRANSPORT OPERATORS ON TRAIN OUTPUTS ON INFRASTRUCTURE OPERATED BY ČD, a.s. ON A CONTRACTUAL BASIS



| | | |
|--------------------|-----|-----------------------------|
| 1 České dráhy, a.s | 99% | – 148,106 thousand train km |
| 2 Other providers | 1% | – 1,834 thousand train km |

TANGIBLE FIXED ASSETS OF ČESKÉ DRÁHY AS OF 31 DECEMBER
(selected items)

| ↓ RATIO | UNIT | 2006 | 2005 | 2004 | INDEX 06/05 |
|--|------|-----------------------------|--------|--------|-------------|
| Railway vehicles | | | | | |
| Direct current electric locomotives | pcs | 534 | 539 | 541 | 0.99 |
| Alternating current electric locomotives | pcs | 242 | 242 | 245 | 1.00 |
| Electric two-system locomotives | pcs | 149 | 149 | 148 | 1.00 |
| Diesel locomotives | pcs | 1,130 | 1,237 | 1,347 | 0.91 |
| Steam locomotives | pcs | 22 | 22 | 22 | 1.00 |
| Diesel railcars | pcs | 766^{*)} | 785 | 785 | 0.98 |
| Electric trainsets | pcs | 113 | 107 | 100 | 1.06 |
| Freight wagons | pcs | 33,354^{**)} | 34,610 | 35,023 | 0.97 |
| Passenger and luggage coaches | pcs | 4,282 | 4,425 | 4,549 | 0.97 |
| Railway substructure and superstructure | | | | | |
| Total construction length of tracks | km | 573 | 551 | 621 | 1.04 |
| Number of turnout units | pcs | 2,727 | 2,673 | 2,801 | 1.02 |
| Number of bridges | pcs | 6 | 6 | 7 | 1.00 |
| Total length of bridges | m | 104 | 104 | 117 | 1.00 |
| Communication equipment | | | | | |
| Number of telephone switchboards | pcs | 450 | 450 | 450 | 1.00 |
| of which, electronic switchboards | pcs | 270 | 270 | 250 | 1.00 |
| Long-distance cabling | km | 6,550 | 6,550 | 6,550 | 1.00 |
| of which, optical cables | km | 2,189 | 2,189 | 1,989 | 1.00 |
| Public radio | pcs | 9 | 8 | 8 | 1.13 |
| Overhead circuit tracks | km | 1,513 | 1,513 | 1,513 | 1.00 |

^{*)} Incl. 8 diesel railcars sold to lease them back.

^{**)} Incl. 243 wagons sold to lease them back.

A young man in a red t-shirt and blue jeans is using a grey, angled kiosk at a transit station. He is leaning forward, touching the screen. In the background, other people are visible, including two men in suits and briefcases. The station has a modern design with large glass windows and grey pillars. The floor is made of large grey tiles. A black bag is on the floor near the man's feet.

We revitalize **60** stations



OTHER BUSINESS ACTIVITIES OF ČD, a.s.

LIVING RAILWAY STATIONS

This is not the first year in which ČD, a.s. continues the substantive revitalisation of important railway stations all over the Czech Republic, under the auspices of the project entitled "Living Railway Stations". The revitalisation pursued by ČD, a.s. is a complex modernisation of station buildings, the areas around railway stations and adjacent plots of land, which have become obsolete since their construction or last modernisation and no longer match the contemporary requirements for the quality of travelling. The revitalised railway stations will provide ČD, a.s.'s customers with new transport services, modern additional services, as well as a worthy environment for leisure. Station buildings of large railway stations will resemble modern shopping centres after the revitalisation, with both the look and function, and they will further be equipped with hotels, car rental services and services that will also attract customers who do not normally need ČD, a.s.'s services. The revitalised railway stations will become alternative city centres, which will, unlike the shopping centres situated on the outskirts of cities, have the advantage of a location in the city centre and natural customer movement.

Co-Operation with Partners

The intention of ČD, a.s. to revitalise the important railway stations in the Czech Republic is based on the experience of countries with which the Czech Republic shares a common history, such as Germany and Austria, where investors show interest in the crucial modernisation of railway stations, and where many railway stations have already been substantially reconstructed. ČD, a.s. decided to take advantage of this experience and make use of the form similar to PPP (Public Private Partnership) cooperation for the revitalisation.

ČD, a.s. offers its immovable assets to private partners for revitalisation. A private partner selected on the basis of a tender will arrange for an extensive modernisation of the buildings provided for passengers at their own expense, in the form of a long-term lease. The private investor will adapt the station buildings and their environment to fit the contemporary requirements, as well as renovate the terminal halls and equip them with additional services in the best of taste for the customers, ranging from standard services such as tobacconists and newsagents or fast food shops to the services currently considered exceptional, e.g. hotels or cinemas. The private partner will acquire a return on investment from the lease of commercial space to its end operators. The rarer form of co-operation with private partners is an incorporation of a joint venture, in which ČD, a.s. invests its immovable assets and the partner brings investments and experience with the realisation of similar projects. The guarantor of the compatibility of revitalisation projects with the operating needs of ČD, a.s. is the fellow subsidiary, ČD Reality, a.s. Approximately 120 of the most important railway stations, out of the aggregate amount of almost 3,000 railway stations and stops, were integrated in the Living Railway Stations project. The estimated costs of investments in the Living Railway Stations project are tens of billions of Czech crowns.

Revitalisation Projects of the Living Railway Stations

The Prague Main Railway Station, the Upper Railway Station of Karlovy Vary and the Mariánské Lázně station are the Living Railway Station's pilot projects. These three railway stations were leased on a long-term basis to the Italian company Grandi Stazioni, which has experience with the revitalisation of Italian railway stations. Construction work on all three of the above-mentioned railway stations will commence in the period between the end of 2006 and the beginning of 2007.

The Prague Masaryk Railway Station will be revitalised by the joint venture Masaryk Station Development, a.s. The revitalisation project has been postponed and it will remain so until the requirements of ČD, a.s. and the municipal district, as to the location of the rail yard and utilisation of the adjacent railway land, are harmonised.

The joint venture Smíchov Station Development, a.s. will arrange for the revitalisation of the Prague-Smíchov railway station, including the transformation of the former freight station into a residential and administrative area. However, the whole revitalisation is dependent on a change in the existing land use plan, which will be negotiated in the years 2008-2010.

Viamont will coordinate the revitalisation of the broader city centre of Ústí nad Labem with the rail yard renovation, resuming the revitalisation of the station building. SŽDC is now extensively modernising the Ústí nad Labem railway junction. The modernisation includes the complete replacement of rails, shunts, a reconstruction of three platforms according to European parameters, as well as an extension of the third platform to 400 metres. The existing pedestrian underground walkway will be broadened from nine metres to twenty seven, to suit the needs of the construction of a shopping centre and a car park, which will guarantee recovery of the investment to the investor in the station building revitalisation.

The station building in Havlíčkův Brod will also go through an extensive revitalisation in the next few years. The city transferred the bus station outside the railway station, which will implement a transport system integration in Havlíčkův Brod. A partner of ČD, a.s., AŽD Praha s.r.o., will arrange for the repair of the station building and provide the terminal hall with little shops, a tasteful restaurant and additional commercial services. The new terminal hall will have a modern information and dispatch centre.

AŽD Praha s.r.o. was also chosen as a partner for the Kolín railway station revitalisation. In Kolín, the terminal hall will be the first to be reconstructed and equipped with modern services. Subsequently, the greater terminal building surroundings will

be revitalised, and the utilisation of all operating buildings in the whole railway station will be rationalised.

The service organisation of the municipality of Františkovy Lázně acquired the Františkovy Lázně terminal building under a long-term lease. The terminal building will be modernised by Lázně Františkovy Lázně, at the company's own expense, so that the building becomes a worthy part of the spa town.

The fellow subsidiary – ČD Reality a.s. provides revitalisation of the Plzeň Main Railway Station terminal building, to link it to the railway junction modernisation and bring bus traffic closer.

Another railway station, for which a partner was selected through a tender, is Teplice v Čechách. Bostas will revitalise its historic terminal building to match the recently modernised rail yard, as well as the newly built pedestrian underground walkway under the rail yard. The unused freight depot behind the rail yard will also undergo a change, in order to become more effective.

The joint venture Centrum Holešovice is responsible for the renovation of the Prague-Holešovice station. The purpose of the renovation is to modernise and revitalise an important international railway station, which is a significant interchange station involving bus, rail and public transportation. The terminal building itself will be subject to significant renovation.

The association of JLV and M2 Real Estate a.s. won the competition and was selected as a partner for the revitalisation of the Pardubice Main Station terminal building. The terminal hall will be modernised extensively, and the offer of additional commercial services at the station will widen. A hotel will be added in the terminal building, and the railway station will be equipped with a car rental office. Modernisation of the surrounding area and other railway buildings will proceed in stages.

The association of JLV and M2 Real Estate a.s. won the tender and was selected as a partner for the revitalisation of the Hradec Králové terminal building, whose interior layout will undergo an extensive change; the commercial services offer will be expanded, the railway operations that are not intended for passengers will be removed from the terminal hall.

The association of EDIKT a.s. and INDES INVEST s.r.o. will provide the terminal building modernisation of České Budějovice Railway Station. Apart from the terminal building, it will also modify the unused freight depot to the contemporary requirements and attach the railway buildings to the bus terminal, which is under construction.

Kert will modernise the small railway station Prague-Braník and bring its back to its original state.

In the next few years, the association of Con Invest and Bohemia EU will revitalise the terminal building in Poděbrady, including the surrounding railway territory.

Prague-Krč will be integrated into its surrounding built up area by GARDEN DEVELOPMENT, a.s.

The revitalisation of the railway station in Chomutov is being negotiated with BOSTAS, s.r.o.

TRANSACTIONS WITH PROPERTY

Sale of Immovable Assets

In 2006, the sale of the redundant assets of ČD, a.s. unnecessary for the principal activity continued. A total of 264 transaction cases were approved during 2006, in the aggregate amount of CZK 400 million. The sale of immovable assets in 2006 amounted to CZK 561 million. The sale included the sale of SŽDC's immovable assets in the aggregate value of CZK 94 million. In 2007, the Company will continue selling redundant assets, which often result in costs for ČD, a.s.

Lease of Immovable Assets

In 2006, ČD, a.s. concluded a total of 11,700 lease contracts with a negotiated rental amount of CZK 357 million. In comparison with 2005, the negotiated rental remained in the same amount in 2006, despite the continued sale of ČD, a.s.'s immovable assets.

The SAP R/3 system's Real Estate Administration module, which was introduced at the end of 2005, enabled full integration of all data from the real estate area into a single information system, auditability of the real estate area and the related increased efficiency of ČD, a.s.'s treatment of immovable assets. The real estate controlling, in which the actual costs are assigned to buildings, was applied in this module in 2006, and record-keeping of the sales within the RE module commenced. The RE module newly includes records of all ČD, a.s. real estate.

MARKETING AND COMMUNICATION ACTIVITIES

In the year ended 31 December 2006, ČD continued the communication trend initiated in 2005 when, following the appointment of new management, the Company started focusing on linking communication and support of its business activities. This new communication approach is based on more focused and intensive activities aimed at presenting Czech Railways as a dynamic transportation company providing quality services for a good price.

ČD'S MAJOR COMMUNICATION CAMPAIGNS IN 2006
FOCUSED ON THE FOLLOWING ISSUES:

SC Pendolino Product

After launching SC Pendolino in 2005, Czech Railways focused on a comprehensive communication strategy of promoting this exclusive product. ČD started a unique VIP Pendolino concept providing SC Pendolino passengers the opportunity to meet Czech and international celebrities in the realms of society, culture, and sport, such as the Olympic champion Aleš Valenta or the band Čechomor, on board of the train. In October 2006, ČD organised the first 'art train', which displayed a billboard with a photo portrait of the singer Richard Krajčo in the Pendolino fast train with the serial number 007 as the Pendolino train was featured in the most recent James Bond movie, *Casino Royale*.

Modernisation of Rolling Stock

The communication campaign dealt with the presentation of plans and activities related to the modernisation of Czech Railways' rolling stock. Particularly, this covered a presentation in the media of the new Regionova railcars for regional and local railways, which was referred to as "Travel With Regionova Through Your Region", and suburban pantograph class 471 units, which were given the trade name CityElefant. The campaigns were held on national and regional levels.

"Living Railway Stations" Project

In 2006, the long-term communication campaign continued which is aimed at presenting a project designed to revitalising Czech Railways' railway stations in selected cities. The year-round campaign involved both nation-wide and regional activities under a special brand and logo. The modernisation of railway premises enhances the level of passenger transportation services and significantly improves ČD's image in the media.

Press Centre

Launching a Press Centre on ČD's Internet site was another significant event in 2006. The Centre was established to provide journalists with easier access to information on Czech Railways. The Press Centre significantly expanded the press release section and provided further systematic information and material relating to Czech Railways, its people, and the operations of the Czech national railway carrier.

Print Campaigns

ČD's print activities include, for example, an exclusive Czech-English quarterly MOTION or 3D print projects such as Romantic Railway Map, ČEETA Railway Cards etc. In 2006, the ongoing projects such as the GRAND EXPRES monthly, GRAND PENDOLINO, or the Cargo ČD Bulletin quarterly, continued.

Product Campaigns

Product campaigns are aimed at addressing as many current and potential customers as possible. In 2006, ČD's advertising campaigns comprised: "Points for You", "Trip by Train", "Pendolino SC Summer", "Pendolino SC Plus", "eLiška" or "In Search of Snow".

Trade Fairs and Exhibitions

Czech Railways makes use of participating in trade fairs to inform and communicate with the professional public, and in particular, to present its products and services. In 2006, ČD participated in trade fairs such as "Land the Provider", "Garden of Bohemia", "ITEP 2006", "Travelling and Sports" and "TRANSTĚK".

RESEARCH AND DEVELOPMENT

In the long-term, the research and development activities of Czech Railways are primarily focused on supporting safety, speed, reliability, availability of railway transport services and creating conditions to support competitiveness of railways with respect to other transportation segments.

In 2006, activities supporting the broader incorporation of railways into the system of transport services in individual regions continued. Greater emphasis was placed on incorporating railway transport in the system of combined transport, and supporting logistics systems. This orientation can be expected to become one of the long-term research-and-development trends. Another trend is the development and implementation of modern remote-control safety systems.

ČD's cost-reduction efforts have a long-term impact on the amount of research and development expenses in 2006. Recently, ČD has strived for using external funding to the largest extent possible and has assessed individual development trends in view of their resolution perspectives.

A significant number of activities relating primarily to infrastructure plans have already been implemented by SŽDC; however, ČD has actively cooperated in resolving the issues.

In cooperation with SŽDC, the Company was successful in applying for a contribution of CZK 1,412,500 from the State Fund of Transport Infrastructure for study purposes and expert activities. The contribution was used to finance the following engagements:

- A technical and economic study relating to the railway connection between Orlová and Ostrava by a train-tram system;
- Incorporation of a siding system in the Czech railway network;
- Impact of damage to bridge crossing parameters and railway transport safety; and
- Transport safety in railway tunnels, Stage II.

ČD's participation in the TANDEM programme of the Ministry of Industry and Trade continued. Using a contribution of this programme and in cooperation with other entities, ČD took part in resolving projects called "The Use of Digital Transmission Networks for the Operational Management and Increase of Security on Non-Corridor Tracks" and "INDMAIN – An Intelligent Diagnostic System for Rail Vehicles".

The amount of Czech Railways' research and development expenses financed from their own funds was CZK 3.5 million.

As in previous years, ČD continued its international research and development activities in 2006 focusing on individual membership in international consortia of solution providers to resolve projects organised and co-funded primarily within the EU structures, usually with partners from railway transport, industry, academic institutions and research centres. The Company's employees were involved in bilateral and multilateral cooperation, especially with railway companies from neighbouring countries. In 2006, the Czech Railways Group participated in resolving the following projects financed from the funds of the "Sixth EU Framework Programme for Research and Technological Development": EUROPAC, InteGRail, EUDD plus, 2TRAIN, INNOTRACK, RailEnergy, RAILCOM, WIDEM, FELICITAS, and EURNEX. In 2007, ČD, predominantly in cooperation with UIC (its coordination research group and other teams), participated in designing several projects for the Seventh Framework Programme of the European Community for Research, Technological Development and Demonstration Activities.

In research and development, ČD intensified its cooperation with other international organisations, such as CER, ERA or UNIFE, and continued its collaboration with representatives of academic institutions and research centres.

In 2006, ČD's representatives took an active part in activities relating to railway system interoperability. ČD's employees supported achieving the long-term and far-reaching goal of seamless mutual interconnection and cooperation of systems in multiple areas of the railway sector by active work in international commissions developing the Technical Specifications for Interoperability (TSI), primarily in AEIF (European Association for Railway Interoperability) teams. TSI preparation and implementation in the Czech Republic was reflected in the research and development work relating namely to protecting the environment, safety, telematics and many other areas of the Czech railway system. These tasks were fulfilled by employees of the parent company as well as its subsidiaries.

INFORMATION TECHNOLOGY

In 2006, the trend of developing IT technology in ČD's passenger transport continued. ČD's offers regarding fare types and lines for which tickets can be bought through ČD's eShop was expanded. The eLiška product (eFox), which enables travelling between regional cities for a very advantageous price, can be purchased only via the Internet. A customer phase was successfully launched in the In-karta project. By the end of 2006, over 76 thousand customers ordered some of the In-gold, In-zákazník, In-junior or In-senior applications. ČD became the largest issuer of transport chip cards in the Czech Republic. Development of a new generation of the ARES 3 reservation system was launched for more comfortable passenger dispatch. The trend of accepting credit cards in passenger cash offices in railway stations continued.

The development of individual modules of the SAP R/3 system continued. In 2006, obligations to provide solutions were met with respect to two modules (HR – staff section and MM). In connection with the establishment of DPOV, a.s., SAP R/3 was implemented with the following modules: FI, AM, FI-SL, MM, PM, HR – staff section, and E-banking. Several new functionalities were incorporated in the solution of SAP R/3, module RE, which are necessary for the final controlling of ČD's real estate with the key elements being the incorporation of the real estate register and the development of modules for leasing and selling offers and demands.

In the freight transport segment in 2006, the Central Freight Cash Office (CNP) application was modified by modules for supplemental and transport services and customs documentation. The IT support system for freight railcar management installed in the Central Wagons Control in Česká Třebová, used for the management of most of the freight wagons owned by ČD, was upgraded by a module of external owners' freight wagons disposition (DNV). The application of freight wagons' financial profitability (EVNV) was put in operation, which assesses mutual relations of income, expenses and performance of individual types of railcars using data collected from other systems, thus providing summary information on the profit rate. Newly, an application for marshalling freight trains called Editor of Marshalling Trains and Lines in the Freight Transport (EMAN) was launched, which provides a comprehensive underlying data of train transport flow sheet used by other systems.

With respect to operational management, the development of the Railway Operation web portal continued creating conditions for safe user access with respect to the assigned roles and access rights, thus reducing the risk of business data misuse by unauthorised users. KADR, the system supporting the sale of railway capacity, was upgraded by a new path-location module improving and accelerating ordering, and assessing and assigning routes for ad-hoc trains. At the end of 2006, 290 installations of the Train Record Book application and 30 installations of the CDS – SGVD application (support to simplified railway transport management under D3 guideline) were activated. The latter should replace the paper transport documentation (as did the Train Record Book) and automatically provide information on train journeys, which is essential for performance clearing and calculation in the task of Archives of Operating Performance Data (ADPV).

In context of the railway line's functionality, the Company developed and rolled out intranet-based information systems (IS). For example, a testing operation of IS for registration of operating status of the railway network in selected performance units was launched. A significant step in connecting ČD's and public administration's information systems was made in the field of crossings: a module for data exchange between crossings IS and the integrated system of the Zlín region was put in to operation.

INVESTMENTS

In accordance with the "České dráhy Business Plan for 2006" and the overall strategy of ČD, the principal priority included the renovation and modernisation of rail vehicles both for passenger (regional and long-distance) and for freight transport.

Investments in Machinery

In the regional passenger transport segment in 2006, first modernised double-car units of 814/914 Regionova series, 954 series steering railcars and 054 series trailers were supplied which were added to earlier modernised diesel railcars of 854 series to form integrated trainsets (854+054+954). Other significant investments included the supply of first suburban electric 471 CityElefant sets with a new design.

In the long-distance passenger transport segment in 2006, supplies of air-conditioned coaches of the first and second class and sleeping cars started. These cars are used in the international transportation up to the 200 km/h speed.

In the freight transport segment in 2006, Roos wagons used for the transport of timber were modernised, Falls and Eas wagons used for the transport of coal were modernised and Kils wagons used for the transport of piece and bulk cargo of packed shipments or shipments on pallets were modernised.

Investments in Construction

Other important components of ČD investment activities include investments in construction. In 2006, four significant construction investments were initiated. Large investments included the construction of a stable railcar washer in Prague and the construction of the container terminal in Lovosice. Minor investments included the construction of siding track and set-up of a loading station in Ždírec nad Doubravou in order to increase the volume of transported goods on railway and opening of the training centre in Česká Třebová which will serve for the professional education of ČD employees.

Investments in construction by ČD financed by SFDI for 2006 were received based on the contract entered into SFDI and ČD. The most significant completed constructions as part of ČD's assets in 2006 included the construction of the railway junction in Zábřeh na Moravě and electrification of the Ostrava-Svinov–Opava railway route including the renovation of the station building and Ostrava-Svinov railway station surrounding area.

Funding

As a priority, ČD uses its own funds for funding its investment activities, but it concurrently seeks to use other external funds. One of the most significant possibilities include funding using loans from EUROFIMA, the combination of ČD own funds and government grants as part of the programme for the renovation of regional transport railcars, State programme for the support of energy savings and the use of renewable energy sources in the transportation segment for 2006, leases, supplier loans, etc. European funds are becoming a more and more important source of out-company finances. In 2006, European funds were

used to finance the following projects of the České dráhy Group: "Increase in the Adaptability and Level of ČD, a.s. Employees Education – the Ústí region" and "Development in the Methodology of the Comprehensive Outplacement of Large Companies as an Instrument for the Support of Employees Impacted by Restructuring" (European Social Fund and Czech State Budget), "ČD container public terminal in the Lovosice railway station as part of Industrial and Logistics Centre in Lovosice" and "Renovation of the České dráhy, a.s. Training Centre in Česká Třebová" (European Fund for Regional Development and Czech state budget), "Adriatic – Baltic Landbridge" and "MONITOR – Hazard Monitoring for Risk Assessment and Risk Communication" (Interreg IIIB CADSES and Czech state budget).



We have markedly **increased** the labour productivity



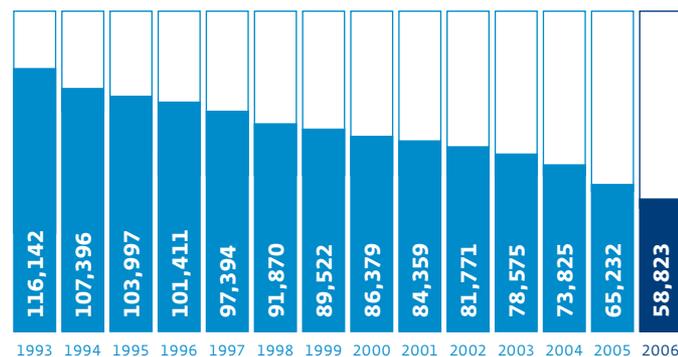
EMPLOYMENT POLICY AND SOCIAL PROGRAMME

During 2006, ČD continued to implement the measures adopted in order to enhance their financial position and performance. Measures in the human resources area involved an on-going optimisation of the number of employees aimed at improving age and professional levels while maintaining staff effectiveness.

ČD also continued in its contractual co-operation with selected vocational schools, high schools and universities in training their graduates – future employees of the Company – in order to attract young staff members. ČD has entered into general contracts on co-operation with universities and high schools. The subject matter of these contracts is professional education at both the theoretical and practical levels, collaboration in scientific and research programmes, application of the latest scientific and technological achievements to practical operation, participation in the preparation of school curricula, etc. The Company's involvement in vocational training and lifetime education focused on career development is also of significance as ČD assists in defining topics for BA, MA and PhD theses. The "Increase in the Adaptability and Level of ČD, a.s. Employees Education – the Ústecký region" project commenced on 1 June 2006 and was co-financed from the European Social Fund and the state budget of the Czech Republic. ČD 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 6,409 people (from 65,232 to 58,823). The physical headcount was 57,246 people as of 31 December 2006, down year-on-year by 5,192.

DEVELOPMENT OF THE AVERAGE HEADCOUNT OF ČD, a.s. RECALCULATED TO FULL TIME EMPLOYEES IN 1993 TO 2006^{*)}



^{*)} Figures for the period from 1993 to 2002 relate to the state enterprise ČD.

In order to mitigate adverse social implications of the downsizing process following the transformation of ČD, the Company continued to apply the Supplementary Social Programme of ČD, approved by the Czech government, in 2006. The programme comprises the following issues above the scope of legal regulations:

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

The average wage included in wages and salaries netted of any other payroll costs amounted to CZK 20,864 at ČD in 2006. The nominal increase from 2005 was 7.5 percent.

In line with the effective legal regulations, the Company used the Social Fund of ČD during 2006 in favour of ČD's employees, namely for the following purposes:

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

There are six trade union organisations operating within ČD, both multi-disciplinary and representing a single professional group of employees. The corporate collective agreement regulating individual and collective relations between the employer and employees as well as the relationship between the trade unions and employer was entered into on 1 January 2006 and is effective through the end of this year.

Code of Ethics

The Code of Ethics ČD was prepared in 2005. The Code of Ethics represents a set of ethical principles, standards and requirements binding for ČD's employees. This Code voices the ethical values of the Company, its visions and mission.

Railway Healthcare

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

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

THE COMPANY AND THE ENVIRONMENT IT OPERATES IN

International Liaisons

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

The interests of ČD were pushed forward primarily in the Community of European Railways (CER), which is on its way to becoming the most important international railway organisation. ČD's determination to promote its own attitudes in documents that are valid all over Europe was characteristic of ČD's integration in CER activities. ČD also manages to maximally use CER's active support while discussing important questions related to the Company's development in the operating bodies of the EU.

Within the reputable UIC, ČD used the right it is given by the UIC Statute for the first time, and limited its participation in those projects which the Company does not consider useful for its own development. UIC increasingly concentrates on "global activities", and a number of activities in the area of interoperability are gradually taken over by other organisations – ERA and CER.

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

In the area of bilateral relations, ČD primarily focused on the preparation of new contracts on border transport between ČD, the Polish PKP, German DB and Austrian ÖBB. The contracts fully comply with the terms and conditions imposed by the European railway legislation and will supersede the outdated Border Arrangements.

Environmental Protection

Environmental protection is an inseparable part of railway operation in the Czech Republic and it is closely connected to both the transport route and operations of rail vehicles of personal and freight transport. Effects of the Czech Republic's membership in the EU are becoming increasingly visible, mainly through the gradual transposition of new EU legislative measures into the Czech system of law.

In the last few years, railway transport has been referred to increasingly often in connection with the terms "sustainable mobility" and "permanently sustainable development". Its unquestionable advantages are primarily the lower demand for energy when compared to air and road transportation. Unlike intensive and often conflict-provoking extension of the road and motorway network, the construction of modern railroads is substantially less invasive to the landscape and requires considerably less land; an undeniable fact is also the limited production of air pollution and a lower level of emitted noise. A positive indicator of the railway transport is also the notably higher degree of safety achieved even at high speed.

The basic impulse for further development of railroad transport and the above-mentioned advantages is the principle of charging a road toll fee. For the future, such parameters will need to be set so that they allow for harmonisation of conditions applicable to the transport and railroad business.

The activity of ČD in the area of environmental protection is focused on the following areas:

- Continuous fulfilment of obligations in the area of individual environmental components (record-keeping, duty to report, complaint resolution, etc.);
- removal of effects of rail transport on the environment in previous years, including the reduction of environmental pollution through existing sources of contamination (leakage of dangerous substances into the environment, old noise pollution, etc.); and
- focus on environmental issues in projects being prepared.

ČD has been making every effort to reduce its consumption of water (the Company managed to unify the system of potable and waste water monitoring in 2006) and strives to reduce air pollution (during 2006, the Company reduced the number of medium and technological sources of air pollution, through an ongoing ecologisation of selected steam plants). The Company further strives for complex removal of old environmental damage, improvement of emergency systems used when disposing of dangerous substances, protection of soil and water, and noise pollution reduction. ČD's active approach helps to improve the conservation of the vegetation along the railroads. A unified system for hazardous waste removal was successfully started in 2006.

Costs of environmental conservation are monitored through an internal accounting system, and at the same time an "internal ecological audit" proceeds annually, the results of which are used for both statistical purposes established by legislation and the Company's own comparison also in the water management area and for the review of the individual environmental components development.

The information system in the area of environment protection based on the EisProW software enables the specification of records in the area of air conservation and waste management. The system's network version was successfully launched in 2006, and its utilisation in the area of water management is being prepared.

In terms of the quality management system implementation, selected ČD segments (organisational units) implement the ISO 14001 environmental management system. In terms of international co-operation in resolving environmental issues arising from railway transport operation, mention should be made of ČD's participation in UIC's activities (Platform for Environment, Energy and Maintainable Development) and OSŽD (first committee for strategy).

DEVELOPMENT OF AIR POLLUTANTS CAUSED BY RAILWAY TRANSPORT (TONNES)*



* Figures for the period from 1996 to 2002 relate to the state enterprise ČD.

SOCIAL RESPONSIBILITY OF ČESKÉ DRÁHY, a.s.

Social responsibility of a company is no longer a hollow term; its actual positive impact on business activities is becoming increasingly visible. České dráhy, a.s., being one of the largest business entities in the Czech Republic, realises the above, and without being forced to do so, sets high ethical standards, endeavours to reduce negative environmental effects, nurtures positive relationships with its employees and supports all regions in which it operates.

Charitable Activities

České dráhy, a.s. takes part in a whole range of activities that are beneficial to society. As an example, an online auction of illustrations by children from orphanages can be mentioned. The “Train of Happiness and Hope” project was prepared by České dráhy, a.s. and Siemens under the auspices of the Federation of Orphanages of the Czech Republic. Over 700 pictures from 66 orphanages were provided for the auction. The aim was to generate financial resources for the orphanages. Approximately CZK 70 thousand was credited to the orphanages' accounts thanks to the auction.

In cooperation with the Railroad Employees Union, České dráhy, a.s. sent out the “Train Full of Smiles” for disabled children on the International Children’s Day – 1 June. The most up-to-date commuter ČD unit with barrier-free access (CityElefant) travelled from Prague to Zlín full of children for the fourth time. In 2006, a modern motor wagon joined it on the Olomouc–Zlín route for the first time. A rich all-day programme was prepared for the children in Zlín, in cooperation with the International Film Festival for Children and Youth in Zlín. Over 400 children got on the trains.

Another child-related ČD event also took place on 1 June 2006. 40 children from three orphanages could travel for a one-day trip to Prague using the SC Pendolino train for free. The children could visit the driver’s cabin en route.

Presumably the most significant child-related charitable project of ČD is the long-term cooperation with the “Plaváček” Endowment Fund– the “Wind in the Sails” project. ČD provides young talented “plavaceks” with the chance to travel the country to perform. The young artists are also welcome at ČD’s own presentation events, where they are often provided with their first chance to perform in front of the public not only singing, but also dancing, etc. ČD deputies in regions function as godfathers to the selected, most talented “plavaceks”.

All child-related ČD activities are covered by ČD under the logo of the JUNIOR PROGRAMME, with the “ČD FOR THE CHILDREN” motto. Among other projects, excursions for children (The Colourful World of Children) or regular participation in the Bambiriáda leisure activities show are included in the programme.

ČD also supports the cultural life, especially in smaller cities and municipalities. In 2006, a cinema train travelled to 23 Bohemian and Moravian towns again. The project is a product of the cooperation of ČD and organisers of the International Film Festival for Children and Youth in Zlín. Over 21,000 pre-school and school-aged children were able to watch screenings of popular Czech films and fairytales during the weeks of the cinema train’s operation.

However, the most significant cultural project, in which ČD participates, is the gallery train, run by ČD and Leica Gallery Prague. In 2006, a train with Antonin Kratochvil’s photographs stopped in nine stations, while 45,000 visitors attended the exhibition. The successful cooperation commenced in 2005 through a Sebastiao Salgado exhibit, which visited 12 Czech and 11 Slovak towns and welcomed 63,000 visitors. In 2007, the train takes the photography exhibition of Wim Wenders and his wife Donata Wenders to places in the Czech Republic.

Environmental Policy

The social responsibility of ČD includes the effort to minimise direct and indirect environmental effects. The management of the Company announced its environmental policy in the past. While enforcing the policy, ČD strictly follows the effective legislation for environmental protection and imposes environmental protection criteria on all its activities. When exercising its activities, ČD prevents pollution and optimally utilises all natural resources. As to its employees, ČD strives for the reduction of hazardous working conditions and supports employee training in the area of environmental protection. Last but not least, ČD cooperates with its suppliers and business partners, to minimise the indirect environmental impact which is a consequence of their cooperation.

Concern for the surrounding world is clearly reflected in all forms of the Company's activities, because responsible business contributes not only to a long-term business success, but mainly to the clients' happiness and the happiness of the Company taken as a whole. Social responsibility is an integral part of the Company's culture and business style.

FORMATION OF SUBSIDIARIES

In 2006, the first stage of the spin-off of servicing and additional activities was finalised, the statutory body approved the Rules of the Performance of Ownership Rights of České dráhy, a.s. In 2006, the following subsidiaries were formed and incorporated, or received equity investments:

RAILLEX, a.s.

Recorded in the Register of Companies → 17 June 2006

Share capital → CZK 2,000,000

Equity investment → ČD 51%, SETTO CZ, s.r.o. 49%

Principal activities → storage of goods, manipulation with material and transport

ČD-DUSS Terminál, a.s.

Formation of the Company → 13 December 2006

Recorded in the Register of Companies → 1 March 2007

Share capital → CZK 4,000,000

Equity investment → ČD 51%, Deutsche Umschlaggesellschaft Schiene-Straße mbH (Germany) 49%

Principal activities → operation of container terminals including related services

DPOV, a.s.

Formation of the Company → 25 September 2006

Recorded in the Register of Companies → 1 January 2007

Share capital → CZK 330,000,000

Equity investment → ČD 100%

Principal activities → inspections, repairs, modernisation and renovation of rail vehicles

Koleje Czeskie Sp. z o.o.

Recorded in the Register of Companies → 18 December 2006 in Poland

Share capital → PLN 100,000

Equity investment → ČD 100%

Principal activities → representation of ČD

ČD travel, s.r.o.

Recorded in the Register of Companies → 1 August 2005

Start of activities of the standalone corporate entity

→ from 1 January 2006

Share capital → CZK 7,500,000 was increased to CZK 14,500,000 on 10 October 2006

Equity investment → ČD 51,7%, Odborové sdružení železničářů 48,3%

Principal activities → travel agency

Jídelní a lůžkové vozy, a.s.

Recorded in the Register of Companies → 14 July 2006

Share capital → CZK 197,278,000

Equity investment → ČD 38.79% through the purchase of shares on 14 July 2006

Principal activities → provision of comprehensive services in restaurant, sleeping and couchettes cars for railway companies.

In 2005–2006, all ČD subsidiaries achieved better results than as ČD branches which confirms the correctness of the established process – creation of the holding structure of ČD. The initiation of the second stage – spin-off of core activities (freight transport) into a subsidiary ČD Cargo, a.s. is anticipated to take place in the latter half of 2007.

ACTIVITIES OF THE CONSOLIDATED COMPANIES

The ČD Consolidation Group which includes České dráhy, a.s. (parent company), ČD-Telematika a.s. (subsidiary), Traťová strojní společnost, a.s. (subsidiary) and Výzkumný Ústav Železniční, a.s. (subsidiary) was defined by the resolution of the CEO of ČD of 23 December 2005 and it was expanded to include Jídelní a lůžkové vozy, a.s. on 1 December 2006.

ČD-Telematika a.s.

Principal business activities of ČD-Telematika a.s. include the provision of comprehensive ICT solutions. The company offers telematic services, operation, maintenance and servicing of IT equipment, electronic communication services, construction and operation of telecommunication systems and data processing and storage.

In line with the wide range of its activities, the Company offers a wide spectrum of products and services. They include products and services from ICT infrastructure, electronic communication, IT services, telematic applications and processing engineering. ČD-Telematika owns the second largest optical network in the Czech Republic. Its current length is 3,500 km. This network is predominantly composed of 72 or 36-fibre optical cables of which approximately 2,300 km is embedded in the ground and approximately 1,200 km is suspended on the railway traction columns. Optical cables are carried in the total of 239 municipalities and 157 towns while other distribution points can be put into operation as required. In 2005, the company implemented the integrated management system (IMS) including quality assurance subsystems in accordance with ČSN EN ISO 9001:2000 (QMS), management of impact on the environment in accordance with ČSN EN ISO 14001:2004 (EMS) and management of security and health protection at work OHSaS 18001:1999 (SMS).

In 2006, ČD-Telematika extended all three certificates. In mid-2007, the company anticipates receiving the ISO 27001:2005 certificate. The received certificates confirm that ČD-Telematika is a company that introduced such measures that provide customers with quality products, employees with a healthy and secure working environment and friendliness to the environment in which it operates. Currently, the company complies with the requirements of public tenders placed on potential bidders by the public administration. In 2006, the company entered into the partnership with the most significant ICT products suppliers and acquired the following partnership: Oracle Certified Partner, IBM Business Partner, HP Preferred Partner. ČD-Telematika became the partner of the Transportation Faculty of Pardubice University and the Czech Technical University in Prague.

At the end of the year, the company decreased its share capital by CZK 332.644 million to CZK 2,042.105 million. České dráhy increased its share in the company from the original 51 percent to 59 percent. The share capital was decreased by the paid withdrawal of shares from circulation and the increase in the equity investment in České dráhy, a.s., as the majority owner of the company, purchase of treasury shares from minority shareholders, from own funds. It provided conditions for the subsequent equity investment of SŽDC, s.o. in ČD-Telematika in accordance with the recommendation of the Board of Directors of the controlling company, České dráhy, a.s.

The secondary positive impact of the above intent will include the stabilisation of the whole area of the interconnected communication network used by ČD-Telematika, České dráhy, a.s. and SŽDC, s.o. The principal tasks of 2006 included the preparation of a new medium-term strategy of the Company called "Strategy 2011". This task was successfully fulfilled and the implementation of the strategy will start at the beginning of 2007. The aim of the new strategy entails acquiring new customers outside the České dráhy Group and operators of electronic communications. In addition, the company will seek to establish itself on the foreign transport and logistics market and use the acquired know-how in this segment. In 2006, the company generated sales of CZK 1.420 billion and the profit before tax of CZK 36.221 million.

Traťová strojní společnost, a.s.

Activities of Traťová strojní společnost, a.s. (TSS) focus on the work with railway machinery in maintenance, modernisation and renovation of the track superstructure and operation of irregular freight transport focused on the transportation of construction materials. TSS significantly assists in repairs and renovations of special railway machinery. TSS provides its railway services to ČD, a.s., and construction companies in the Czech Republic, in EU states and other foreign countries. In 2006, the railway work involved work on railways in Slovakia, Poland and Montenegro. After the successful year 2005, the aims of 2006 focused on the stabilisation of the company, increase in performance and sales as defined in the Business Plan, generate profit and finalise the process of a strategic partner's equity investment. Based on the contract for the subscription of shares entered into between TSS and ŽS Brno, a.s., the non-cash investment composed of special machinery, locomotives and railway cars was transferred to TSS on 31 January 2006. The cash investment of CZK 20 million was paid to TSS'S account. The issue rate of subscribed shares amounted to CZK 365,228,000.

The investment of the strategic partner, ŽS Brno, a.s., in TSS was finalised following the record in the Register of Companies on 15 February 2006. In addition to the investment, 32 employees were transferred from the strategic partner to TSS. In 2006, significant changes were made to the composition of the statutory body and the TSS Board of Directors was expanded from three to five members and revamped. In addition, the Supervisory Board underwent certain changes – several members were replaced due to the entrance of the strategic partner.

During 2006, the company formed a branch in Montenegro and Slovakia under the legislation of these states. For the first time, the company took part in the international trade fair IAF 2006 in Münster. In the common stand under the auspices of the Ministry of Trade and Industry, TSS introduced itself as a strong repair base and operator of the railway mechanisation. During 2006, the company decided to move its registered office in the shortest possible period of time to the TSS premises in Hradec Králové. The company successfully extended the quality management system in accordance with ISO 9001 : 2000 in the recertification audit.

In 2006, the company launched the process of purchasing movable and immovable assets from ČD, a.s. which was not subject to the investment at the formation of the company and was leased. At the end of the year, the company purchased movable assets in the aggregate amount of approximately CZK 60 million and it anticipates making further purchases for 2007.

In 2006, TSS generated a pre-tax profit of CZK 57.4 million.

Výzkumný ústav železniční, a.s.

The second year of the existence of Výzkumný ústav železniční, a.s. (VUZ) confirmed that the intention of the founder of VUZ, České dráhy, a.s., to form a legal entity engaged in research, development and testing in railway transport, having the legal status of joint stock company and being a subsidiary of České dráhy, a.s. was the right step to take. VUZ successfully continues in the long-term tradition of its predecessors that over more than fifty years constructed an institution with research, development and testing activities in railway transport that earn respect in the Czech Republic and abroad. Due to the successful acquisition of the status of an authorised and certification entity which was granted at the beginning of 2006, VUZ can provide its customers with a wide portfolio of professional services, predominantly authorised activities in the assessment of the compatibility of products, accredited activities related to testing and certification of products and systems of quality or expert activity in railway systems and railway transport.

During 2006, VUZ's primary task, continuing in the successful efforts to acquire the status of an authorised entity, was to extend the portfolio of offered services both in the certification segment, the assessment of compatibility of products and quality systems and newly applied segment of assessing elements and subsystems within the interoperable railway system.

VUZ thus took the first key steps towards becoming a respected certification entity not only in Central Europe, the authorisation of which covers all significant structural subsystems of railway transport.

In terms of its principal activity, which represents the key activity of VUZ, the year 2006 saw not only the implementation of a number of significant engagements but also intensive work on organisational and material preparation for the implementation of a more advanced method of managing the company's principal activity – project management system which will be adopted by VUZ at the beginning of 2007.

In addition, VUZ took part in significant projects in railway transport which, for example, include the pilot project of the remote transport controlling, the ETCS project, assessment of the compatibility of corridor constructions, rail vehicles and their parts. In addition to these activities, VUZ took part in other international programmes of the sixth framework programme of the European Commission – EURNEX, EUROPAC, RailEnergy, FELICITAS, INNOTRACK, and WIDEM.

At the end of 2006, the company successfully finalised the renovation of the part of the Railway testing circle in Cerhenice u Velimi and the renovated part was inaugurated on 13 December 2006. The result of the renovation is the improvement for the testing of rail vehicles in the area of the VUZ Velim Testing centre and the expansion of the range of offered services predominantly due to the increase in the maximum operating speed of 210 km/h. After further investment adjustments, predominantly improvement of traction mains, planned for 2007, the position of the Velim testing centre will further increase as a unique place for testing rail vehicles at the European level.

In 2006, the company generated a pre-tax profit of CZK 8.9 million, i.e. the fulfilment of the previously set business plan at 104.89 percent.

Jídelní a lůžkové vozy, a.s.

Jídelní a lůžkové vozy, a.s. (JLV) is a significant European company engaged in accommodation and catering services in the railway transportation. The company provides catering and retail services. In addition to ČD, JLV cooperates with CityNightLine (Curych) and DB Autozug (Dortmund). JLV expands its activities to also include other than railway transportation.

In 2006, JLV generated a pre-tax profit of CZK 17 million and sales of CZK 271.8 million.



INVESTMENT ACTIVITIES (CZK MILLION)

| | 2006 | 2005 | 2004 | 2003 | INDEX 06/05 |
|---------------------------------|----------------|---------|---------|---------|-------------|
| Total investments | 5,772.5 | 6,098.3 | 5,484.0 | 2,683.1 | 0.95 |
| – of which: passenger transport | 3,199.4 | 3,174.9 | 2,488.8 | 1,081.6 | 1.01 |
| – of which: freight transport | 397.0 | 485.4 | 289.5 | 4.7 | 0.82 |
| – of which: infrastructure | 2,073.2 | 1,573.8 | 2,581.0 | 1,191.3 | 1.32 |
| – of which: other | 102.9 | 864.2 | 124.7 | 405.5 | 0.12 |
| Investment grants | 571.5 | 443.9 | 1,149.6 | 1,053.3 | 1.29 |
| Internal investments | 5,201.0 | 5,654.4 | 4,334.4 | 1,629.8 | 0.92 |

INVESTING ACTIVITIES OF ČD

The plan of using resources for the acquisition of fixed assets (investments) followed the approved Business Plan of ČD for the year ended 31 December 2006 and was set at CZK 4,293.7 million, of which external funding CZK 3,144.8 million.

External funding from SFDI in respect of the total investment activity plan for 2006 were stipulated at CZK 399.3 million. ČD received these funds for investments in its assets on the basis of a contract entered into with SFDI, SŽDC and ČD. The lending plan in the amount of CZK 1,825.2 million was designated for the financing of new and upgraded rail vehicles for passenger and freight transport.

Total investments were drawn in the amount of CZK 5,772.5 million, i.e. 134.4 percent of the annual plan.

BALANCE SHEET

In the period from 31 December 2005 to 31 December 2006, the value of ČD's fixed assets increased by CZK 2.05 billion and amounted to CZK 43.74 billion, i.e. 83 percent of total assets. Current assets, which are composed of inventory, receivables and current financial assets, increased by CZK 0.9 billion to CZK 9.13 billion, i.e. 17 percent of total assets in the period from 31 December 2005 to 31 December 2006. The value of the Company's equity dropped by CZK 0.7 billion to CZK 36.4 billion,

i.e. 69 percent of total liabilities. The Company's share capital was CZK 20 billion, i.e. 38 percent of total liabilities. Liabilities increased by CZK 3.6 billion to CZK 16.3 billion, i.e. 31 percent of total liabilities in the reporting period.

PROFIT AND LOSS ACCOUNT

The results of ČD, a.s.'s operations for the year ended 31 December 2006 are composed of total sales and revenues of CZK 48,052 million and total expenses of CZK 48,501 million including accounting depreciation and amortisation charges of CZK 2,544 million. Compared to the business plan, sales and revenues increased by CZK 3,345 million, i.e. the plan was met at 107.5 percent. Total expenses increased by CZK 3,175 million, i.e. the plan was met at 107 percent.

FUNDING

The funding of ČD was provided from the following: finances obtained from the Company's activities; grants intended to compensate for the losses from public service commitments; grants for construction investments, operation of railway route, its operability and modernisation and development in public interest, and loans guaranteed by the state and EU funds.

The contribution to compensate for the operator's loss on the operation of public passenger railway transport, the compensation of the provable loss on the student fare, the Supplementary Social Programme and assistance in the renovation of railcars for regional passenger transport were provided to ČD from the state budget through Chapter 327 of the Czech Ministry of Transportation and from the budgets of individual regions based on concluded contracts. Funds for financing construction, modernisation, repairs and maintenance of railway routes in the public's interest were provided to ČD by SFDI and SŽDC based on the concluded contracts in 2006.

RISK MANAGEMENT

ČD monitors and assesses all significant business risks, predominantly price, credit and liquidity risks.

Price Risk

In 2006, the cash flow in passenger transport was exposed to limited price risk. Income was secured primarily based on applicable contracts on the commitments arising from public service entered into with regional authorities. Concurrently, ČD continually drew the budget of the Ministry of Transportation even though the contract for the public service commitments involving the fulfilment of state transportation needs was not entered into. Passenger transport fees and fees from foreign railway administration were fully collected on a continual basis. Extraordinary transports were only carried out after an advance payment was received. ČD carries the business risk as a result of an underfinanced commitment of the public service where the difference between the contractual payment from regions and the state and ČD's calculated loss had to be financed from ČD's funds.

The risk arising from the participation in the Integrated Transport System is connected with the fact that if the number of pas-

sengers (obtained from the transportation survey) using railways changes significantly, the financial relations will not be adjusted to reflect the change in the number of passengers. The contract on the public service commitment was entered into with the State in June 2006 and with regional authorities in December 2005 to April 2006; 23 percent of the commitment to provide basic transport services was covered by the State and 77 percent by regional authorities.

The pricing policy in freight transport and ČD transport had to be adjusted to ever-growing competition in 2006: with respect to the unified train cargos – competition of private railway transporters, with respect to individual shipments – competition of road transporters. Prices for 2006 were stabilised and increased where possible; however, transport distance was reduced. The continual transfer from customer rates to contracts for the price of transportation, including several-year contracts, continued.

Acquisitions, reconstruction and modernisation of rail vehicles and their funding from external resources typically represent over-the-limit engagements at ČD and are subject to the regime introduced by the Public Procurement Act, the use of which also leads to the optimisation of their prices.

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

Credit Risk

The Company carries out regular weekly monitoring with regard to receivables and payables by individual companies and default periods during the whole fiscal year. Special attention is given to receivables past due for more than 60 days. The Committee led by the Finance Division Director meets once a month to deal with the past due receivables.

In 2006, ČD began using an external law firm to recover doubtful debts.

ČD pro-actively applies the offsetting policy with special attention given to receivables past due for more than 60 days to improve liquidity and decrease the receivable and payable balances.

Selected prepayments made to suppliers are covered by bank guarantees.

Liquidity Risk

The Financial Committee has been established at the level of the Finance Division Director to assess the liquidity and cash flow developments on a weekly basis. Possible variations in cash flows are dealt with by the use of an overdraft facility on the current account.

For short-term appreciation of funds deposited in ČD's current accounts, ČD uses cash pooling and short-term placements of income from transportation on term deposits.

ČD concluded liability insurance for damage caused in relation to the operation of railway transportation on the national and regional railways.

In the foreign exchange rate risk area, ČD used hedging derivatives to a limited extent in 2006. ČD does not plan to use them more extensively in the near future for the following reasons:

ČD uses "inherent hedging" for hedging against foreign exchange rate risks in the long-term. ČD's regular monthly inflows of foreign currencies are translated into Czech crowns after all payments in EUR are made in the particular month, including the foreign language debt service. Given the monthly financial volume of EUR/CZK, ČD concluded a special agreement with the bank assuring the use of the best possible exchange rate available in the period. In 2006, the portion of EUR expenses to the EUR income was approximately 10.5 percent. It can be antici-

pated that this portion will increase in the following years due to the inception of investment loan repayments and leases denominated in EUR.

ČD adopted a very conservative attitude towards the hedging against credit risk, as all existing investment loans and similar funds (e.g. funds provided by the European Union for financing the EUROFIMA rail vehicles) are covered by a state guarantee. In such events, the interest rate risk hedging would have to be required or approved by a guarantor. Given the low volatility of interest rates based on EURIBOR, the Czech Ministry of Finance, as a guarantor, did not require hedging against interest rate or foreign exchange rate risks. Interest rates are established on the floating basis as equal to EURIBOR plus a margin.

Planned ČD Risk Management Instruments in 2007 and Upcoming Years

In upcoming years, ČD will keep employing the above-mentioned instruments, namely the inherent hedging and regular monitoring of liquidity developments with respect to receivables and payables.

Given the significant improvement in handling receivables that are past their due dates for more than 60 days in individual entities, ČD will particularly deal with receivables that are past their due dates for more than 30 days in 2007.

In selected cases, ČD will commission an external law firm to undertake 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

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

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

ČD's development respects 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 significant opportunities (increased demand for transport, possibility to enter attractive foreign markets). ČD will strive to succeed in the competition and become an acknowledged transport company within the European transport environment.

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

Further opening of the Czech railway market should be coordinated with the development in other European Union countries. The European Union's intention is to build a common European transport area. The implementation of this intention started with the selected network of trans-European routes for freight transport called TERFN. The entire railway network in the EU opened to international freight transport competitors in 2006 and the railway freight market was fully liberalised in 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 2010 in the international segment.

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

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

Further plans in the freight transport segment concern relocation of the business activities into the ČD Cargo subsidiary. This will give way to the necessary forms of cooperation with partner entities mainly in terms of international transport.

The freight transport has to be seen as a complex service provided between the place of production and the place of consumption – a number of entities often participate in the transport itself. The business offer will be aimed at the provision of complex services to customers, along with the transportation intermodality enhancement. The successfully completed certification of the quality management system under ISO norms for selected activities will lead to the strengthening of the market position.

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

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

share capital, securities, and shareholders

ISSUED SHARE CAPITAL

Amount of Subscribed Share Capital

The Company's share capital amounting to CZK 20,000,000,000 is fully paid. The share capital consists of 20 ordinary shares with a nominal value of CZK 1,000,000,000 each. ČD's shares take the form of registered materialised shares with restricted negotiability; the shares are negotiable subject to the prior consent 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 Ministry of Transportation and one employee from each of the following ministries: Finance, Defence, Industry and Trade, and Regional Development appointed by the government.

STEERING COMMITTEE OF ČD, a.s. AS OF 31 DECEMBER 2006

Ondřej Jašek

CHAIRMAN OF THE STEERING COMMITTEE;
FIRST DEPUTY TO THE MINISTER OF TRANSPORT OF THE CZECH REPUBLIC

Authorised by Resolution of the Czech government No. 1168 of 11 October 2006

Vojtěch Kocourek

VICE-CHAIRMAN OF THE STEERING COMMITTEE;
DEPUTY TO THE MINISTER OF TRANSPORT OF THE CZECH REPUBLIC

Authorised by Resolution of the Czech government No. 1096 of 6 November 2002

Bohumil Haase

MEMBER OF THE STEERING COMMITTEE; DIRECTOR OF THE OFFICE OF THE MINISTRY OF DEFENCE OF THE CZECH REPUBLIC

Authorised by Resolution of the Czech government No. 1168 of 11 October 2006

Miroslav Kalous

MEMBER OF THE STEERING COMMITTEE; DEPUTY MINISTER FOR REGIONAL DEVELOPMENT OF THE CZECH REPUBLIC

Authorised by Resolution of the Czech government No. 1168 of 11 October 2006

Petr Polák

MEMBER OF THE STEERING COMMITTEE; DIRECTOR OF THE CABINET OF THE MINISTER OF INDUSTRY AND TRADE OF THE CZECH REPUBLIC

Authorised by Resolution of the Czech government No. 1168 of 11 October 2006

Pavel Škvára

MEMBER OF THE STEERING COMMITTEE; DEPUTY TO THE MINISTER OF TRANSPORT OF THE CZECH REPUBLIC

Authorised by Resolution of the Czech government No. 1168 of 11 October 2006

Jiří Volf

MEMBER OF THE STEERING COMMITTEE; DEPUTY TO THE MINISTER OF FINANCE OF THE CZECH REPUBLIC

Authorised by Resolution of the Czech government No. 732 of 10 July 2002

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

Resolution of the Czech government No. 1168 as of 11 October 2006 cancelled the authorisations of Jiří Havlíček, Jaroslav Král, Jaroslav Soušek, Pavel Štalmach and Antonín Tesařík.

In 2006, the Supervisory Board of České dráhy, a.s., joint stock company, met at ten regular meetings. Guests were invited to participate in these meetings as and when required, which primarily included members of the Board of Directors as well as the CEO of the Company and directors of relevant departments of the Company.

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 prior consent, primarily to sell and purchase a defined portfolio of immovable assets, to conclude a lease contract with AŽD Praha s.r.o., which won the tender for a partner for the preparation, implementation and development of the Havlíčkův Brod station, to call a public tender for the modernisation of class 120 Eas wagons, to sell 100 decommissioned locomotives for the purpose of liquidation of SD Obchodní společnost s. r.o. Brno, to sell rails and a contact system intended for liquidation in the form of an open tender, and to invite a public tender for the best proposal to enter into an agreement on the sale of rails and copper contact systems.

The Supervisory Board also granted the Board of Directors prior consent to increase the amount of the loan from Komerční banka, a.s., up to the amount of CZK 900 million, as well as the loan from Československá obchodní banka, a. s., up to the amount of CZK 780 million.

In addition, the Supervisory Board granted the Board of Directors prior consent to: call a tender for the maintenance and service of the ČD, a.s. telecommunication infrastructure; call an open tender for the supply of electricity for ČD, a.s., for 2007; sell ČD, a.s.'s assets; purchase SDŽC, a.s.'s assets; enter into implementation contracts on the "Solving the Prague-Masaryk Station" project; solve the revitalisation of the terminal building in the form of

a long-term lease for the period of 30 years; commence negotiations on the form of future cooperation with the winner of the tender for the preparatory work, realisation and development of the Pardubice Main Station, Hradec Králové Main Station, Jídelní a lůžkové vozy, a.s. and M2 Real Estate a.s.; call a tender for modernisation of 26 three-piece model units of the 814 class; purchase the Pražský projekt, a.s. certificate shares; call a tender for the provision of audit and advisory services in the reporting periods of 2007–2009 and the subsequent entering into an agreement with a selected candidate; and conclude a Cooperation Agreement concerning the preparatory work and the subsequent implementation of the "Multiple-Function Transportation Terminal Bezruč Square – Česká Třebová", as well as the subsequent participation of the entity on the preparation and realisation of the project.

Furthermore, the Supervisory Board consented to call a tender for the insurance of the liability for damage resulting from railway transport operations at rail yards throughout the state in 2007, at the end of which consent was granted to conclude an insurance contract with the selected tenderer, Česká pojišťovna a.s. Furthermore, the Supervisory Board granted the Board of Directors its consent to call a tender for ensuring the sale of 500 freight wagons of the Eas class for a price established based on an estimate by a court-appointed appraiser, while it insisted on being provided with a draft of the contract prior to the conclusion of the contract with the selected candidate. Subsequently, the Board granted consent to conclude an agreement on the sale of 500 freight wagons of the Eas class with the selected tenderer, Čechofracht a.s., provided that the agreement will include comments of individual members of the Supervisory Board (the increase in the contractual fine treble the proposed amount, etc.). The Supervisory Board also granted prior consent to call a tender for the most suitable proposal for the supply of light fuel oil pursuant to the relevant provisions of Act 137/2006 Coll., as amended, for the contractual term of three years, while it delegated two of its members (František Vašítek and Jaromír Dušek) to the committee for the selection and evaluation of tenderers. Last

but not least, the Supervisory Board gave its prior consent to prolong the duration of general agreements with individual network operators to 25 years, and to enter into lease contracts with network operators for a period longer than 5 years, in accordance with the investment recovery.

In addition, the Supervisory Board ordered that the Board of Directors gradually realises the sale of blocks of flats which include five or more housing units, in the form of a direct sale to corporate entities, i.e. housing associations consisting of the current tenants, in selected localities.

The Supervisory Board paid special attention to the "Report on the Results of Operations and the Intelligent Reporting of ČD, a.s. for 2005", which it eventually, with suggestions, acknowledged. At the same time, it continuously inquired into the economic results of the Company for individual phases of 2006. The Supervisory Board was also continuously informed about the drawing of loans provided by EUROFIMA. Financing through these loans was duly discussed and at the related meetings, the Supervisory Board granted the Board of Directors its prior consent to receive a loan in the amount of EUR 30 million. The Supervisory Board also, under certain reservations, following proper negotiation, acknowledged the report on an HR audit and the "Results and Recommendations of the Forensic Audit of the ČD, a.s. Assets Handling". The Supervisory Board also paid attention to the Company's media work.

The Supervisory Board also dealt with a set of measures designed to minimise the accounting loss of ČD, a.s. in 2006. In this context, the Supervisory Board acknowledged Government Decree of the Czech Republic No. 638 of 24 May 2006, on the basis of which the compensation of the transporter's loss from the operation of the railway passenger transportation provided by the state increased by CZK 300 million. The Supervisory Board agreed with the reasoning of the Board of Directors as to the search for a new solution to the reinforcement of the compensation of the transporter's loss from the operation of the public railway passenger transportation and a reinforcement of the settlement of the operations management on the passenger and freight routes.

At the same time, the Board asked the Steering Committee to provide support in resolving the situation in accordance with the relevant resolution of the Supervisory Board of 6 June 2006.

The Supervisory Board also revised and recommended that the Steering Committee approve the report on business activities of the Company and the state of its assets, including the report on the accounting for the funds from public budgets, as well as the general-purpose financial statements for the year ended 31 December 2005, including the proposal for the settlement of the Company's loss, whereby the loss for 2005 is allocated to accumulated losses on the 2006 balance sheet and will be offset against the profits to be generated in the following years, as well as a proposal that a portion of the share premium be allocated to the social fund. The Supervisory Board also reviewed and recommended that the Steering Committee approve the consolidated financial statements for the year ended 31 December 2005, as well as the financial statements of standalone accounting areas established by Act no. 77/2002 Coll.

At the regular meetings of the Supervisory Board, a considerable degree of attention was paid to the Business Plan for 2007, which was approved following numerous comments. Among the crucial comments was the necessity to consider the issue of passenger transportation through more than one region in the Business Plan, where the Supervisory Board agreed that it is out of the question to agree with the current state of the ordering and financing of connections only as far as the regional borders. The Supervisory Board further agreed that this degrades the railway timetable and that a systematic solution on the part of the regional and state-wide public transportation coordinator needs to be arrived at; the Supervisory Board is convinced that the same has to be done concerning the issue of cross-border international transportation, where regions refuse to finance the divisions situated between the last station and the state's border. With regard to the upcoming massive support of investments in 2007–2013 from the EU funds in the infrastructure, the Supervisory Board believes that it is absolutely necessary to arrange for negotiations with ČD, a.s., because investments in construction

cannot be allowed “at any rate” regardless of the possibility of their inevitable impact on the Company’s operations.

The Supervisory Board also repeatedly discussed the question of the Company’s treatment of assets. While dealing with this issue, the efficiency of the assets treatment of ČD, a.s. was assessed continuously, including the assessment of the economic results of subsidiaries and joint ventures.

Following due negotiation and review, the Supervisory Board acknowledged the project of the DPOV, a.s. subsidiary’s incorporation, including the proposal of a contract for the contribution of part of the business for DPOV, a.s.’s incorporation, and granted the Board of Directors its prior consent to contribution a portion of ČD, a.s.’s business to the newly incorporated DPOV, a.s. in the amount of CZK 342,672,000.

Last but not least, the Supervisory Board paid attention to the intent of the Board of Directors to found a subsidiary of ČD, a.s. – ČD Cargo, a.s. Following due consideration of the intent, the Supervisory Board eventually acknowledged the project, whereupon it expressed its justified suspicion that the step could lead to a partial elimination of passenger transport. This will bring about the necessity to seriously, with full responsibility, consider the system of the financing of the provable loss arising from the commitment of the public service in the railway passenger transport with a subsequent comprehensive solution. Passenger transport has so far been partially financed from the profit from freight transport. The Supervisory Board stated that a consequence of the state being unable to finance passenger transport would be the failure of social peace, because some jobs would cease to exist in such a case. At its last meeting in 2006, the Supervisory Board, in this matter, discussed information about the current state of ČD Cargo, a.s.’s incorporation, with the recommendation to complement the presented material on the economic impact on the Company, mainly concerning the future securing of the funding of the parent company.

Both the Board of Directors and the Supervisory Board took part in a review day at ŠKODA TRANSPORTATION s.r.o., where they were acquainted with the process of commencement of the pro-

duction of ČD, a.s.’s order for the supply of 20 series 380 three-system locomotives.

Last but not least, the Supervisory Board regularly discussed the “Living Railway Stations” project at their meetings.

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 senior management, the Board of Directors, or authorised managers during the course of its supervisory activities in 2006.

Vojtěch Kocourek

CHAIRMAN OF THE SUPERVISORY BOARD OF ČESKÉ DRÁHY, a.s.





independent auditor's report

TO THE SHAREHOLDERS OF ČESKÉ DRÁHY, a.s.

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

REPORT ON THE FINANCIAL STATEMENTS

Based upon our audit, we issued the following audit report dated 7 May 2007 on the financial statements which are included in this annual report on pages 125 to 164:

"We have audited the accompanying financial statements of České dráhy, a.s., which comprise the balance sheet as of 31 December 2006, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of České dráhy, a.s. as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Based upon our audit, we issued the following audit report dated 27 June 2007 on the consolidated financial statements which are included in this annual report on pages 81 to 123:

“We have audited the accompanying consolidated financial statements of the consolidation group of České dráhy, a.s., which comprise the balance sheet as of 31 December 2006, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body’s Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities’ internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the consolidation group of České dráhy, a.s. as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.”

REPORT ON THE RELATED PARTY TRANSACTIONS REPORT

The annual report does not include a report on the transaction between the controlling and controlled entities and transactions between the controlled and other entities controlled by the same controlling entity for the year ended 31 December 2006. The Company's opinion on which the management based this decision is included in this annual report.

REPORT ON THE ANNUAL REPORT

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

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

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

In Prague on 27 July 2007



AUDIT FIRM:
Deloitte Audit s.r.o.
Certificate no. 79



STATUTORY AUDITOR:
Václav Loubek
certificate no. 2037



REPRESENTED BY:
Václav Loubek
authorised employee

consolidated financial statements ČD, a.s.

080 → 081

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2006

| | |
|---------------------|---|
| Name of the Company | České dráhy, a.s. |
| Registered Office | Nábřeží L. Svobody 1222, Prague 1, 110 15 |
| Legal Status | Joint Stock Company |
| Corporate ID | 70 99 42 26 |

Contents of Consolidated Financial Statements:

Consolidated Balance Sheet
Consolidated Profit and Loss Account
Consolidated Statement of Changes In Equity
Consolidated Cash Flow Statement
Notes to the Consolidated Financial Statements

Consolidated financial statements was compiled on 27 June 2007

Statutory body of the accounting unit



Vladimír Filip

A MEMBER OF THE BOARD OF DIRECTORS
AND DEPUTY DIRECTOR GENERAL FOR ECONOMICS



Jiří Kolář

A MEMBER OF THE BOARD OF DIRECTORS
AND DEPUTY DIRECTOR GENERAL FOR PASSENGER TRANSPORT

CONSOLIDATED BALANCE SHEET FULL VERSION

| ↓ AS OF 31. 12. → IN CZK THOUSAND | 2006 | 2005 |
|---|-------------------|-------------------|
| TOTAL ASSETS | 54,403,626 | 51,069,261 |
| B. Fixed assets | 44,366,536 | 42,221,574 |
| B.I. Intangible fixed assets | 702,905 | 514,127 |
| B.I.1. Start-up costs | 854 | 1,093 |
| B.I.2. Research and development | 107 | |
| B.I.3. Software | 75,144 | 29,909 |
| B.I.4. Valuable rights | 233,081 | 242,898 |
| B.I.6. Other intangible fixed assets | 99 | |
| B.I.7. Intangible fixed assets under construction | 393,620 | 240,227 |
| B.II. Tangible fixed assets | 43,351,968 | 41,408,816 |
| B.II.1. Land | 7,213,116 | 7,451,394 |
| B.II.2. Structures | 12,051,833 | 11,449,185 |
| B.II.3. Individual movable assets and sets of movable assets | 21,611,954 | 16,088,051 |
| B.II.6. Other tangible fixed assets | 4,140 | 4,140 |
| B.II.7. Tangible fixed assets under construction | 818,014 | 4,712,878 |
| B.II.8. Prepayments for tangible fixed assets | 1,645,174 | 1,694,847 |
| B.II.9. Valuation difference on acquired assets | 7,737 | 8,321 |
| B.III. Non-current financial assets | 343,067 | 353,022 |
| B.III.1. Equity investments in subsidiaries | 57,473 | 51,956 |
| B.III.2. Equity investments in associates | 10,357 | 5,829 |
| B.III.3. Other securities and investments | 275,237 | 275,237 |
| B.III.6. Acquisition of non-current financial assets | | 20,000 |
| IV. Consolidation differences (goodwill) | -140,554 | -54,391 |
| 2. Negative consolidation difference (negative goodwill) | -140,554 | -54,391 |
| V. Securities and equity interests under equity accounting | 109,150 | |
| C. Current assets | 9,895,670 | 8,731,637 |
| C.I. Inventories | 1,893,031 | 1,936,511 |
| C.I.1. Material | 1,776,746 | 1,891,397 |
| C.I.2. Work in progress and semifinished goods | 104,388 | 16,024 |
| C.I.4. Animals | 3 | 3 |
| C.I.5. Goods | 10,681 | 6,549 |
| C.I.6. Prepayments for inventory | 1,213 | 22,538 |
| C.II. Long-term receivables | 31,741 | 52,596 |
| C.II.1. Trade receivables | 291 | 27 |
| C.II.5. Long-term prepayments made | 6,437 | 4,081 |
| C.II.7. Other receivables | 25,013 | 23,702 |
| C.II.8. Deferred tax asset | | 24,786 |
| C.III. Short-term receivables | 5,685,341 | 4,718,421 |
| C.III.1. Trade receivables | 3,622,163 | 3,143,947 |
| C.III.6. State – tax receivables | 132,711 | 26,856 |
| C.III.7. Short-term prepayments made | 330,566 | 245,261 |
| C.III.8. Estimated receivables | 1,554,421 | 1,263,329 |
| C.III.9. Other receivables | 45,480 | 39,028 |
| C.IV. Current financial assets | 2,285,557 | 2,024,110 |
| C.IV.1. Cash on hand | 105,031 | 84,178 |
| C.IV.2. Cash at bank | 2,028,418 | 1,937,824 |
| C.IV.3. Short-term securities and investments | 152,108 | 2,108 |
| D. I. Other assets | 141,420 | 116,050 |
| D.I.1. Deferred expenses | 99,951 | 113,749 |
| D.I.2. Complex deferred expenses | 62 | 62 |
| D.I.3. Accrued income | 41,407 | 2,239 |

| ↓ | AS OF 31. 12. → IN CZK THOUSAND | 2006 | 2005 |
|---------------|--|-------------------|-------------------|
| | TOTAL LIABILITIES & EQUITY | 54,403,626 | 51,069,261 |
| A. | Equity | 35,702,841 | 36,542,779 |
| 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 | 15,904,174 | 18,418,782 |
| A.II.1. | Share premium | 16,733,236 | 19,172,917 |
| A.II.2. | Other capital funds | -843,987 | -764,996 |
| A.II.3. | Gains or losses from the revaluation of assets and liabilities | 14,925 | 10,861 |
| A.III. | Statutory funds | 296,810 | 253,196 |
| A.III.1. | Statutory reserve fund/Indivisible fund | 988 | |
| A.III.2. | Statutory and other funds | 295,822 | 253,196 |
| A.IV. | Retained earnings | -53,186 | -1,542,005 |
| A.IV.2. | Accumulated losses brought forward | -53,186 | -1,542,005 |
| A.V. | Profit or loss for the current period (+/-) | -445,146 | -587,183 |
| 1. | Profit or loss for the period | -447,517 | -587,383 |
| 2. | Share of income from associates | 2,371 | 200 |
| A.VI. | Consolidation reserve fund | 189 | -11 |
| B. | Liabilities | 16,701,563 | 12,969,180 |
| B.I. | Reserves | 160,467 | 134,224 |
| B.I.1. | Reserves under special legislation | 14,462 | |
| B.I.4. | Other reserves | 146,005 | 134,224 |
| B.II. | Long-term liabilities | 4,698,074 | 3,269,266 |
| B.II.5. | Long-term prepayments received | 271,194 | 18,319 |
| B.II.9. | Other payables | 4,296,613 | 3,250,947 |
| B.II.10. | Deferred tax liability | 130,267 | |
| B.III. | Short-term liabilities | 8,895,175 | 7,534,625 |
| B.III.1. | Trade payables | 5,156,020 | 3,772,797 |
| B.III.5. | Payables to employees | 1,145,104 | 1,262,231 |
| B.III.6. | Social security and health insurance payables | 583,778 | 603,545 |
| B.III.7. | State-tax payables and subsidies | 264,035 | 275,053 |
| B.III.8. | Short-term prepayments received | 425,076 | 339,167 |
| B.III.10. | Estimated payables | 1,320,493 | 1,164,815 |
| B.III.11. | Other payables | 669 | 117,017 |
| B.IV. | Bank loans and borrowings | 2,947,847 | 2,031,065 |
| B.IV.1. | Long-term bank loans | 1,972,248 | 1,422,839 |
| B.IV.2. | Short-term bank loans | 975,599 | 608,226 |
| C.I. | Other liabilities | 391,909 | 341,748 |
| C.I.1. | Accrued expenses | 129,073 | 102,275 |
| C.I.2. | Deferred income | 262,836 | 239,473 |
| D.I. | Minority equity | 1,607,313 | 1,215,554 |
| D.I.1. | Minority share capital | 1,528,627 | 1,163,627 |
| D.I.2. | Minority capital funds | 312 | 338 |
| D.I.3. | Minority profit funds incl. retained earnings and accumulated losses | 26,710 | -13,755 |
| D.I.4. | Minority profit or loss for the period | 51,664 | 65,344 |

CONSOLIDATED PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

| ↓ | YEAR ENDED 31. 12. → IN CZK THOUSAND | 2006 | 2005 |
|------------|--|-------------------|-------------------|
| I. | Sales of goods | 207,456 | 162,213 |
| A. | Costs of goods sold | 152,679 | 131,196 |
| + | Gross margin | 54,777 | 31,017 |
| II. | Production | 38,375,993 | 35,805,864 |
| II.1. | Sales of own products and services | 37,613,980 | 35,458,747 |
| II.2. | Change in internally produced inventory | 94,188 | -815 |
| II.3. | Own work capitalised | 667,825 | 347,932 |
| B. | Purchased consumables and services | 22,671,413 | 19,879,993 |
| B.1. | Consumed material and energy | 7,585,277 | 7,076,300 |
| B.2. | Services | 15,086,136 | 12,803,693 |
| + | Added value | 15,759,357 | 15,956,888 |
| C. | Staff costs | 22,194,019 | 22,776,569 |
| C.1. | Payroll costs | 16,070,355 | 16,635,533 |
| C.2. | Remuneration to members of statutory bodies | 8,640 | 4,077 |
| C.3. | Social security and health insurance costs | 5,357,485 | 5,490,302 |
| C.4. | Social costs | 757,539 | 646,657 |
| D. | Taxes and charges | 77,111 | 96,944 |
| E. | Depreciation of intangible and tangible fixed assets | 2,789,874 | 2,587,191 |
| KR. | Amortisation of negative goodwill on consolidation | 7,784 | 3,120 |
| III. | Sales of fixed assets and material | 1,738,177 | 1,011,182 |
| III.1. | Sales of fixed assets | 1,337,992 | 766,747 |
| III.2. | Sales of material | 400,185 | 244,435 |
| F. | Net book value of fixed assets and material sold | 1,049,796 | 592,186 |
| F.1. | Net book value of sold fixed assets | 796,656 | 390,494 |
| F.2. | Book value of sold material | 253,140 | 201,692 |
| G. | Change in reserves and provisions relating to operating activities and complex deferred expenses | -266,817 | -317,912 |
| IV. | Other operating income | 8,389,763 | 8,575,060 |
| H. | Other operating expenses | 578,107 | 525,668 |
| ° | Operating profit or loss | -527,009 | -714,397 |
| VI. | Proceeds from the sale of securities and investments | 49,980 | 35,914 |
| J. | Cost of securities and investments sold | 31,352 | 6,240 |
| VII. | Income from non-current financial assets | 3,966 | 3,955 |
| VII.3. | Income from other non-current financial assets | 3,966 | 3,955 |
| VIII. | Income from current financial assets | 431 | |
| X. | Interest income | 17,869 | 10,956 |
| N. | Interest expenses | 126,899 | 27,020 |
| XI. | Other financial income | 480,570 | 473,945 |
| O. | Other financial expenses | 269,476 | 284,962 |
| ° | Financial profit or loss | 125,089 | 206,548 |
| Q. | Income tax on ordinary activities | 95,544 | 14,495 |
| Q 1. | - due | 22,514 | 10,862 |
| Q 2. | - deferred | 73,030 | 3,633 |
| °° | Profit or loss from ordinary activities | -497,464 | -522,344 |
| XIII. | Extraordinary income | 112,658 | 1,237 |
| R. | Extraordinary expenses | 11,047 | 1,228 |
| S. | Income tax on extraordinary activities | | 4 |
| S.1. | - due | | 4 |
| ° | Extraordinary profit or loss | 101,611 | 5 |
| °° | Consolidated profit or loss net of share of income of associates | -395,853 | -522,339 |
| | Consolidated profit or loss net of minority interests | -447,517 | -587,383 |
| | Minority profit or loss | 51,664 | 65,044 |
| °° | Share of income of associates | 2,371 | 501 |
| | Share of income of associates net of minority interest | 2,371 | 200 |
| | Minority share of income of associates | | 301 |
| | Profit or loss for the current period (+/-) | -393,482 | -521,838 |
| °°° | Profit or loss for the current period net of minority interests (+/-) | -445,146 | -587,183 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Other capital funds | Revaluation gains or losses on assets and liabilities | Statutory and other funds from profit | Consolidation reserve fund | Accumulated losses brought forward | Profit or loss for the current period | Share of income from associates | Total Equity |
|---|-------------------|-------------------|---------------------|---|---------------------------------------|----------------------------|------------------------------------|---------------------------------------|---------------------------------|-------------------|
| → IN CZK THOUSAND | | | | | | | | | | |
| ↓ AT 31. 12. 2004 | 20,000,000 | 19,500,000 | -444,064 | | 66,144 | -413 | -924,037 | -617,968 | 402 | 37,580,064 |
| Distribution of profit or loss | - | - | - | - | - | 402 | -617,968 | 617,968 | -402 | - |
| Creation of the social fund with a charge against share premium | - | -327,083 | - | - | 327,083 | - | - | - | - | - |
| Creation of the social fund – other | - | - | - | - | 10,858 | - | - | - | - | 10,858 |
| Use of the social fund | - | - | - | - | -150,930 | - | - | - | - | -150,930 |
| Revaluation of non-current financial assets | - | - | - | 10,861 | - | - | - | - | - | 10,861 |
| Profit or loss for the current period | - | - | - | - | - | - | - | -587,383 | 200 | -587,183 |
| Other | - | - | -320,932 | - | 41 | - | - | - | - | -320,891 |
| Impact of full consolidation of ČD Telematika a.s. | - | - | - | - | - | - | - | - | - | - |
| Minority profit or loss for the period | - | - | - | - | - | - | - | - | - | - |
| ↓ AT 31. 12. 2005 | 20,000,000 | 19,172,917 | -764,996 | 10,861 | 253,196 | -11 | -1,542,005 | -587,383 | 200 | 36,542,779 |
| Settlement of loss for 2003–2005 against share premium | - | -2,135,933 | - | - | - | - | 1,546,139 | 589,794 | - | - |
| Distribution of profit – other | - | - | - | - | 6,628 | 200 | -4,217 | -2,411 | -200 | - |
| Creation of the social fund with a charge against share premium | - | -303,864 | - | - | 303,864 | - | - | - | - | - |
| Creation of the social fund – other | - | - | - | - | 18,322 | - | - | - | - | 18,322 |
| Use of the social fund | - | - | - | - | -285,187 | - | - | - | - | -285,187 |
| Revaluation of non-current financial assets | - | - | - | 4,064 | - | - | - | - | - | 4,064 |
| Profit or loss for the period | - | - | - | - | - | - | - | -447,517 | 2,371 | -445,146 |
| Other | - | - | -78,991 | - | - | - | - | - | - | -78,991 |
| Impact of the investment of OHL ŽS in TSS | - | 116 | - | - | -13 | - | -13,487 | - | - | -13,384 |
| Impact of the recognition of deferred tax from the equity investment of OHL ŽS in TSS | - | - | - | - | - | - | -39,616 | - | - | -39,616 |
| Minority profit or loss for the period | - | - | - | - | - | - | - | - | - | - |
| ↓ AT 31. 12. 2006 | 20,000,000 | 16,733,236 | -843,987 | 14,925 | 296,810 | 189 | -53,186 | -447,517 | 2,371 | 35,702,841 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Minority share capital | Minority capital funds | Minority funds from profit incl. retained earnings and accumulated losses | Minority profit or loss for the period | Total minority equity |
|--|---------------------------|---------------------------|---|---|--------------------------|
| → IN CZK THOUSAND | | | | | |
| ↓ AT 31. 12. 2004 | - | - | - | - | - |
| Distribution of profit or loss | - | - | - | - | - |
| Creation of the social fund with a charge against share premium | - | - | - | - | - |
| Creation of the social fund - other | - | - | - | - | - |
| Use of the social fund | - | - | - | - | - |
| Revaluation of non-current financial assets | - | - | - | - | - |
| Profit or loss for the current period | - | - | - | - | - |
| Other | - | - | - | - | - |
| Impact of full consolidation of ČD Telematika a.s. | 1,163,627 | 338 | -13,755 | - | 1,150,210 |
| Minority profit or loss for the period | - | - | - | 65,344 | 65,344 |
| ↓ AT 31. 12. 2005 | 1,163,627 | 338 | -13,755 | 65,344 | 1,215,554 |
| Settlement of loss for 2003–2005 against share premium | - | - | 65,344 | -65,344 | - |
| Distribution of profit – other | - | - | - | - | - |
| Creation of the social fund with a charge against share premium | - | - | - | - | - |
| Creation of the social fund – other | - | - | - | - | - |
| Use of the social fund | - | - | -304 | - | -304 |
| Revaluation of non-current financial assets | - | 200 | - | - | 200 |
| Profit or loss for the period | - | - | - | - | - |
| Other | - | -338 | - | - | -338 |
| Impact of the investment of OHL ŽS in TSS | 365,000 | 112 | 13,487 | - | 378,599 |
| Impact of the recognition of deferred tax from the equity investment of OHL ŽS in TSS | - | - | -38,062 | - | -38,062 |
| Minority profit or loss for the period | - | - | - | 51,664 | 51,664 |
| ↓ AT 31. 12. 2006 | 1,528,627 | 312 | 26,710 | 51,664 | 1,607,313 |

CONSOLIDATED CASH FLOW STATEMENT

| ↓ | YEAR ENDED 31. 12. → IN CZK THOUSAND | 2006 | 2005 |
|--------------|---|-------------------|-------------------|
| P. | Opening balance of cash and cash equivalents | 2,024,110 | 2,111,980 |
| | Cash flows from ordinary activities | | |
| Z. | Profit or loss from ordinary activities before tax | -399,549 | -507,348 |
| A.1. | Adjustments for non-cash transactions | 2,088,683 | 1,914,059 |
| A.1.1. | Depreciation of fixed assets | 2,803,639 | 2,586,088 |
| A.1.2. | Change in provisions and reserves | -266,817 | -308,136 |
| A.1.3. | Profit/(loss) on the sale of fixed assets | -560,016 | -405,927 |
| A.1.4. | Revenues from dividends and profit shares | -3,966 | |
| A.1.5. | Interest expense and interest income | 109,030 | 16,064 |
| A.1.6. | Adjustments for other non-cash transactions | 6,813 | 25,970 |
| A.° | Net operating cash flow before changes in working capital | 1,689,134 | 1,406,711 |
| A.2. | Change in working capital | 653,007 | 171,846 |
| A.2.1. | Change in operating receivables and other assets | -981,948 | 46,571 |
| A.2.2. | Change in operating payables and other liabilities | 1,561,772 | 228,584 |
| A.2.3. | Change in inventories | 73,183 | -103,310 |
| A.°° | Net cash flow from operations before tax and extraordinary items | 2,342,141 | 1,578,556 |
| A.3. | Interest paid | -95,747 | -27,020 |
| A.4. | Interest received | 17,869 | 10,956 |
| A.5. | Income tax paid from ordinary operations | -22,514 | - |
| A.6. | Receipts and expenditures relating to extraordinary activities | 101,611 | 5 |
| A.7. | Received dividends and profit shares | 3,966 | - |
| A.°°° | Net operating cash flows | 2,347,326 | 1,562,497 |
| | Cash flows from investing activities | | |
| B.1. | Fixed assets expenditure | -5,416,829 | -4,959,181 |
| B.2. | Proceeds from fixed assets sold | 1,358,130 | 802,661 |
| B.4. | Cash flows from the purchase of business or its part | - | 19,408 |
| B.5. | Cash flows from the equity investment of minority owner in a subsidiary | 20,000 | |
| B.°°° | Net investment cash flows | -4,038,699 | -4,137,112 |
| | Cash flow from financial activities | | |
| C.1. | Change in payables from financing | 2,219,221 | 2,626,187 |
| C.2. | Impact of changes in equity | -266,401 | -139,442 |
| C.2.3. | Other cash contributions made by partners | 18,786 | 11,488 |
| C.2.5. | Payments from capital funds | -285,187 | -150,930 |
| C.°°° | Net financial cash flows | 1,952,820 | 2,486,745 |
| F. | Net increase or decrease in cash and cash equivalents | 261,447 | -87,870 |
| R. | Closing balance of cash and cash equivalents | 2,285,557 | 2,024,110 |

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1. → GENERAL INFORMATION

1.1. → Background Information

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

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

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

The consolidated financial statements have been prepared as of and for the year ended 31 December 2006.

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

1.2. → Principal Operations

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

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

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

1.3. → Organisational Structure of the Parent Company

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

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

1.4. → The Company's Bodies

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

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

The Parent Company's Bodies as of 31 December 2006

| | POSITION | NAME |
|---------------------------|---------------|------------------|
| Steering Committee | Chairman | Ondřej Jašek |
| | Vice-Chairman | Vojtěch Kocourek |
| | Member | Pavel Škvára |
| | Member | Jiří Volf |
| | Member | Miroslav Kalous |
| | Member | Petr Polák |
| | Member | Bohumil Haase |

New Composition of the Parent Company's Steering Committee as of 7 March 2007

| | POSITION | NAME |
|---------------------------|---------------|-----------------|
| Steering Committee | Chairman | Petr Šlegř |
| | Vice-Chairman | Rudolf Vyčichla |
| | Member | Emanuel Šíp |
| | Member | Miloslav Müller |
| | Member | Miroslav Kalous |
| | Member | Petr Polák |
| | Member | Bohumil Haase |

| | POSITION | NAME |
|---------------------------|----------|----------------|
| Board of Directors | Chairman | Josef Bazala |
| | Member | Petr David |
| | Member | Vladimír Filip |
| | Member | Jiří Kolář |
| | Member | Rodan Šenekl |

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

The Composition of the Supervisory Board until 19 April 2007

| | POSITION | NAME |
|--------------------------|----------|--------------------|
| Supervisory Board | Chairman | Vojtěch Kocourek |
| | Member | Jan Bitter |
| | Member | Jaromír Dušek |
| | Member | František Formánek |
| | Member | Tomáš Chalánek |
| | Member | Miroslav Kapoun |
| | Member | Karel Korytář |
| | Member | Jiří Kratochvíl |
| | Member | František Vašík |

Changes in the Composition of the Supervisory Board in 2007

On 19 April 2007, the Steering Committee of České dráhy, a.s. recalled the members of the ČD, a.s. Supervisory Board: Messrs František Formánek, Miroslav Kapoun, Karel Korytář and František Vašík.

With effect from 20 April 2007, the Steering Committee of České dráhy, a.s. elected new members of the ČD, a.s. Supervisory Board: Messrs Karel Březina, Jan Černohorský, Zdeněk Prosek and Martin Roman.

1.5. → Formation and Incorporation of the Parent Company

On 1 March 2002, Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended (the 'Transformation Act') took effect.

On the basis of the Transformation Act the Company was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Company and the state organisation Railway Route Administration ('SŽDC') were formed as its legal successors.

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

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

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

The consolidation group of České dráhy for the year ended 31 December 2006 consists of the following entities

| NAME | REGISTERED OFFICE | CORPORATE ID | OWNERSHIP PERCENTAGE | DEGREE OF INFLUENCE | CONSOLIDATION METHOD IN 2006 | CONSOLIDATION METHOD IN 2005 |
|----------------------------------|-------------------------------------|--------------|----------------------|---------------------|------------------------------|------------------------------|
| České dráhy, a.s. | Prague 1, Nábřeží L.Svobody 12/1222 | 70994226 | – | – | – | – |
| Traťová strojní společnost, a.s. | Pardubice, Hlaváčova 206 | 27467295 | 51 ^{**}) | Control | Full | Full |
| ČD-Telematika a.s. | Prague 10, Žirovnická 2/3146 | 61459445 | 51 | Control | Full | Full [*]) |
| Výzkumný Ústav Železniční, a.s. | Prague 4, Novodvorská 1698 | 27257258 | 100 | Control | Full | Full |
| Jídelní a lůžkové vozy, a.s. | Prague 4, Chodovská 3/228 | 45272298 | 38.79 | Significant | Equity | – |

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

^{**}) As disclosed in Note 2.1. and the below disclosure, the Parent Company had exercised full controlling influence over Traťová strojní společnost, a.s. until 15 February 2006 and, on that date, its influence decreased to 51 percent following an investment by another shareholder.

Companies Excluded from the Consolidation

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

| NAME | REGISTERED OFFICE | OWNERSHIP PERCENTAGE |
|------------------------------------|--|----------------------|
| RAILREKLAM, spol. s r.o. | Klímentská 36, Prague 1 | 100 |
| ČD travel, s.r.o. | Hybernská 1034, Prague 1 | 100 |
| Dopravní vzdělávací institut, a.s. | Hybernská 1034, Prague 1 | 100 |
| ČD Generalvertretung GmbH | Kaiserstrasse 60, Frankfurt am Main, Germany | 100 |
| Koleje Czeskie Sp. z o.o. | Hoza 63/67, Warszawa, Poland | 100 |
| RailReal a.s. | Olšanská 1a, Prague 3 | 66 |
| ČD Reality a.s. | Prvního pluku 2a/81, Prague 3 | 51 |
| Smíchov Station Development, a.s. | Revoluční 655/1, Prague 1 | 51 |
| RAILLEX, a.s. | Hybernská 1014/13, Prague 1 | 51 |
| Trade CDT s.r.o. | Pernerova 2819/2a, Prague 3 | 51 [*]) |
| CR-City a.s. | Olšanská 1a, Prague 3 | 34 |
| Masaryk Station Development, a.s. | Olšanská 1a, Prague 3 | 34 |
| XT-Card a.s. | Sokolovská 100/94, Prague 8 | 20.4 ^{**}) |
| BOHEMIAKOMBI, spol. s r.o. | Opletalova 6, Prague 1 | 20 |

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

^{**}) České dráhy, a.s. exercises indirect influence over XT-Card a.s., as 40 percent of this company is owned by ČD-Telematika a.s.

Information from the Financial Statements of the Companies Excluded from the Consolidation Group

AS OF 31 DECEMBER 2006 → IN CZK THOUSAND

| | | | |
|------------------------------------|--------|--------|---------|
| RAILREKLAM, spol. s r.o. | 57,738 | 39,253 | 106,695 |
| ČD travel, s.r.o. | 48,052 | 7,238 | 165,517 |
| Dopravní vzdělávací institut, a.s. | 21,463 | 5,954 | 72,548 |
| ČD Generalvertretung GmbH | *) | 2,987 | *) |
| Koleje Czeskie Sp. z o. o. | 761 | 761 | 0 |
| RailReal a.s. | 2,524 | 826 | 2,015 |
| ČD Reality a.s. | 5,743 | 2,571 | 19,375 |
| Smíchov Station Development, a.s. | 13,879 | 82 | 0 |
| RAILLEX, a.s. | 2,000 | 1,970 | 0 |
| Trade CDT s.r.o. | 460 | -178 | 1,951 |
| CR-City a.s. | 22,407 | 2,727 | 106,199 |
| Masaryk Station Development, a.s. | 5,918 | -231 | 0 |
| XT-Card a.s. | 14,390 | 12,271 | 11,927 |
| BOHEMIAKOMBI, spol. s r.o. | 46,073 | 22,612 | 51,823 |

*) Information is not available

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

Changes in the Composition of the Group

The consolidated financial statements of the Parent Company for the year ended 31 December 2006 have been the second set of consolidated financial statements of the České dráhy Group since the incorporation of the Parent Company. Before the formation of the subsidiaries Traťová strojná společnost, a.s. and Výzkumný Ústav Železniční, a.s. in 2005, as disclosed in Note 2.1., the consolidation group included only one subsidiary – ČD-Telematika a.s. as of 31 December 2003 and 31 December 2004. The equity investment in this subsidiary was 30 percent and 40 percent as of the dates referred to above. The information in the financial statements for the year ended 31 December 2005 includes the figures of the subsidiary ČD-Telematika a.s. that were accounted for using the equity method of accounting until 31 March 2005 and using the full consolidation method since 1 April 2005.

In the year ended 31 December 2006, the consolidation group includes Jídelní a lůžkové vozy, a.s. using the equity method of consolidation. Since 28 June 2006, České dráhy, a.s. has exercised significant influence over this company. In addition, the influence of the Parent Company in Traťová strojná společnost, a.s. decreased from 100 percent to 51 percent during 2006 as disclosed in Note 2.1.

The balance sheet date of the companies included in the Group is 31 December 2006.

2.1. → Subsidiaries

The following table shows information about the companies in the Group as of 31 December 2006

| NAME | PLACE OF INCORPORATION (OR REGISTRATION) AND OPERATION | OWNERSHIP INTEREST IN % | VOTING POWER IN % | PRINCIPAL ACTIVITY |
|--|---|----------------------------|----------------------|---|
| Traťová strojná společnost, a.s. ("TSS") | Pardubice | 51 | 51 | Operation of special railway machines and facilities for the construction, renovation, and maintenance of railways, including its repairs and production of spare parts |
| Výzkumný Ústav Železniční, a.s. ("VUZ") | Praha | 100 | 100 | Research, development and testing of rail vehicles and infrastructure facilities |
| ČD-Telematika a.s. ("CD-T") | Praha | 51 | 51 | Provision of telecommunication services, software and advisory services |

Traťová strojná společnost, a.s. was recorded in the Register of Companies on 1 January 2005. The entity was formed through the investment of part of the Parent Company's business. On 15 January 2005, the contract for the investment of OHL ŽS, a.s. Brno in Traťová strojná společnost, a.s. was signed. The investment decreased the investment of České dráhy from 100 percent to 51 percent. The change was recorded in the Register of Companies on 15 February 2006.

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

In 2003, the Parent Company acquired a 34 percent investment in ČD-Telematika a.s. based on the contract for the assignment of a receivable with MORÁVKA CENTRUM, a.s. for the acquisition cost of CZK 230,744 thousand. In 2004, the Parent Company increased its equity investment in ČD-Telematika a.s. from 34 percent to 40 percent through the capitalisation of the receivable of CZK 297,000 thousand. In 2005, the Parent Company increased the investment in ČD-Telematika a.s. from 40 percent to 51 percent through the investment of the business part, recorded in the Register of Companies on 4 May 2005. In 2006, the investment of the Parent Company in ČD-Telematika a.s. amounted to 51 percent. On 28 June 2006, the General Meeting of ČD-Telematika a.s. decided to decrease the share capital by CZK 332,644 thousand, through the paid withdrawal of shares from circulation. This decrease in the share capital was not recorded in the Register of Companies as of 31 December 2006. It was recorded in the Register of Companies on 13 February 2007 and the investment of České dráhy, a.s. in the company increased to 59.31 percent.

2.2. → Associates

| NAME | PLACE OF INCORPORATION (OR REGISTRATION) AND OPERATION | OWNERSHIP INTEREST IN % | VOTING POWER IN % | PRINCIPAL ACTIVITY |
|--------------------------------------|---|----------------------------|----------------------|--|
| Jídelní a lůžkové vozy, a.s. ("JLV") | Praha | 38.79 | 38.79 | Provision of accommodation and catering services |

In 2006, Jídelní a lůžkové vozy, a.s. was newly included in the České dráhy Group. On 28 June 2006, České dráhy, a.s. purchased the investment held by the Czech National Property Fund in Jídelní a lůžkové vozy, a.s. This transaction was approved by the European Commission on 22 June 2006. The Parent Company thus became the owner of the 38.79 percent equity investment in Jídelní a lůžkové vozy, a.s.

3. → ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

The consolidated financial statements are prepared and presented in accordance with the Accounting Act 563/1991 Coll., as amended and modified by Acts 117/1994 Coll., 227/1997 Coll., 492/2000 Coll. and 353/2001 Coll., 575/2002 Coll., 437/2003 Coll., 257/2004 Coll., 669/2004 Coll., 179/2005 Coll., 495/2005 Coll., 57/2006 Coll., 81/2006 Coll., 230/2006 Coll., 264/2006 Coll. and Regulation 500/2002 Coll., which provides implementation guidance on certain provisions of Act 563/1991, as amended, for reporting entities that are businesses maintaining double-entry accounting records, as amended by Regulations 472/2003 Coll. and 397/2005 Coll.; and Czech Accounting Standards for Businesses.

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

These consolidated financial statements are presented in thousands of Czech crowns (CZK '000), unless stated otherwise.

3.1. → Scope of Consolidation and the Consolidation Method

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

The Group of companies consists of the Parent Company, České dráhy, a.s., and its subsidiaries (ČD-T, TSS, VUZ) and an associate (JLV), refer to Notes 2.1 and 2.2. The definition of subsidiaries and associate is as follows:

Subsidiaries

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

These companies are consolidated using the full consolidation method.

Associates

- Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as 'Equity investments in associates'.
- For consolidation purposes, an associate is a company where the Parent Company has a significant influence, i.e.: It holds more than 20 percent of shares/capital interests and does not exercise controlling influence.

These companies are consolidated using the equity method of accounting.

3.2. → Full Consolidation Method

3.2.1. → Description of Full Consolidation Method

The full consolidation method involves:

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

3.2.2. → Stages of the Full Consolidation Method

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

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

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

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

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

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

Elimination of transactions which do not influence profit or loss.

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

Elimination of transactions which influence profit or loss.

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

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

When the full consolidation method is used, mutual transactions between the Parent Company and subsidiaries and between subsidiaries are eliminated. The elimination of mutual transactions which influence the profit or loss is carried out in accordance with the stated consolidation rules.

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

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

Goodwill arising on consolidation.

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

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

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

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

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

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

Minority equity

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

Distribution of consolidated profit or loss for the current period

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

3.3. → Consolidation using the Equity Method of Accounting

3.3.1. → Description of Consolidation using Equity Accounting

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

- a) Eliminating equity interests issued by an associate from the balance sheet of the entity exercising significant influence and replacing them by a stand-alone balance sheet item of interests valued using equity accounting in the amount of equity interests in the associate;
- b) Settlement of the difference between the valuation of interests and the consolidation balance sheet item of the equity-accounted interest through the recognition of:
 - ba) The consolidation reserve fund which represents accumulated shares in the profit or loss under equity accounting for the prior periods of associates from the date of their acquisition. The consolidation reserve fund also includes subsidiary interests in total changes in other equity (i.e. net of profit or loss) for the relevant period.

Share in profit or loss under equity accounting.

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

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

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

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

4. → SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. → Tangible and Intangible Fixed Assets

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

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

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

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

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

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

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

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

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

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

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

| | NUMBER OF YEARS |
|-------------------------|-----------------|
| Buildings | 30–50 |
| Constructions | 20–50 |
| Locomotives | 20–25 |
| Passenger coaches | 20 |
| Wagons | 25–33 |
| Optical fibres | 35 |
| Machinery and equipment | 8–20 |
| Intangible assets | 3–6 |

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

4.2. → Non-Current Financial Assets

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

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

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

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations, and which are not consolidated, are treated as 'Equity investment in subsidiaries'.

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

Since 1 January 2005:

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

4.3. → Inventory

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

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

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

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

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

4.4. → Receivables

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

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

At the consolidated balance sheet date, the Company records full provisions against receivables that are past due by greater than six months, receivables registered for recovery under bankruptcy and settlement proceedings and receivables where court proceedings against the relevant debtor have been initiated. Different provisioning levels can be recognised taking into account an individual assessment of receivable balances. The Parent Company recognises no provisions against receivables from SŽDC, s.o.

4.5. → Payables

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

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

4.6. → Loans

Loans are stated at their nominal value.

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

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

4.7. → Equity

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

The change in the value of the assets comprising the contribution between the formation date of the Company and its incorporation date as of 1 January 2003 was reported as a component of other capital funds. As of the incorporation date, pursuant to the Transformation Act, the Company assumed not only the assets that comprised the contribution but also other assets and liabilities. The aggregate net value of these other assets and liabilities was also reported as a component of other capital funds. Given that the aggregate net value of assets and liabilities assumed as of 1 January 2003 was lower than the value of the contribution as of 31 March 2002, the reported balance of other capital funds as of 1 January 2003 and subsequently also as of 31 December 2004, 31 December 2005 and 31 December 2006 was negative.

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

The statutory and other funds include the balance of the cultural and social needs fund assumed from the former state organisation Czech Railways reduced to reflect drawings made from 2003 to 2006. In 2005 and 2006, the Company made drawings from the fund and also increased its balance.

4.8. → Reserves

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

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

A reserve for a potential impact of legal disputes is recognised based on the estimate of the anticipated results of the ongoing legal disputes.

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

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

In 2006, the Company newly recognised reserve for bonuses for customers in the freight transportation related to the transported volume in 2006.

In 2006, the Company recognised a reserve for repairs of assets.

4.9. → Foreign Currency Translation

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

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

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

4.10. → Finance Leases

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

4.11. → Income Taxes

4.11.1. → Current Tax Payable

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

The Parent Company, České dráhy, reports both an accounting and tax loss in the year ended 31 December 2006.

4.11.2. → Deferred Taxation

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

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

4.12. → Impairment

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

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

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

4.13. → Contractual Fines and Default Interest

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

4.14. → Financial Derivatives

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

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

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

Grants to settle public service commitments received from the State budget and regional budgets, the Complementary Social Programme grant, and the grant to settle a provable loss on discounted student fare are included in other operating income.

4.16. → Revenue Recognition

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

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

Other revenues of the Group are recognised in the period to which they relate on an accruals basis, except where accruals cannot be estimated with a reasonable degree of certainty or where accrual accounting for revenues is not required by Czech accounting regulations.

4.17. → Use of Estimates

The presentation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Management of the Parent Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

4.18. → Extraordinary Expenses and Income

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly. These expenses and income include, for example, corrections of expenses and income of prior accounting periods, if they are material.

4.19. → Changes in Accounting Estimates

The Parent Company changed the accounting estimate used in provisioning against freight rail vehicles. In the financial statements for the year ended 31 December 2005, the Parent Company estimated the gain from the material acquired in disassembling freight rail vehicles at an average amount of CZK 15,000 and used this amount in arriving at the estimated level of provisions against freight rail vehicles. The amount of the gain was estimated on the basis of the anticipated income decreased by anticipated expenses for the disassembling of freight rail vehicles. In 2006, the Parent Company used the amount of CZK 53,000 in estimating the provisions, as an amount recoverable upon the disposal of the freight rail vehicles for liquidation. This change in the amount for the estimate of provisions resulted from the change in the method of the liquidation of obsolete or redundant freight rail vehicles. In 2006, the Parent Company began to use the services of external companies, thereby decreasing the share of its own expenses in the process of liquidating freight rail vehicles. The related change in estimates resulted in provisions against fixed assets decreasing by CZK 117 million.

4.20. → Changes in Accounting Policies

In the year ended 31 December 2006, the Group did not use any accounting methods different from those adopted in the previous reporting period.

4.21. → Cash Flow Statement

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

→ IN THOUSAND CZK

| | 2006 | 2005 |
|--|------------------|------------------|
| Cash on hand and cash in transit | 105,031 | 84,178 |
| Cash at bank | 2,028,418 | 1,937,824 |
| Short-term securities and investments | 152,108 | 2,108 |
| Total cash and cash equivalents | 2,285,557 | 2,024,110 |

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

5. → ADDITIONAL INFORMATION ON THE CONSOLIDATED BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

5.1. → Intangible Fixed Assets

IN CZK THOUSAND

| ACQUISITION COST | BALANCE AT 1 JANUARY 2005 | IMPACT OF THE CONSOLIDAT. METHOD | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2006 |
|---|---------------------------------|--|----------------|---------------|-----------------------------------|----------------|----------------|-----------------------------------|
| Start-up costs | 0 | 0 | 1,192 | 0 | 1,192 | 0 | 0 | 1,192 |
| Research and development | 103,299 | 0 | 0 | 702 | 102,597 | 160 | 0 | 102,757 |
| Software | 767,307 | 13,560 | 90,099 | 19,123 | 851,842 | 126,467 | 8,196 | 970,113 |
| Valuable rights | 1,730,302 | 255,242 | 0 | 0 | 1,985,544 | 0 | 0 | 1,985,544 |
| Other assets | 942 | 0 | 0 | 0 | 942 | 119 | 0 | 1,061 |
| Intangible assets under construction | 116,635 | 0 | 130,436 | 6,844 | 240,227 | 278,855 | 125,462 | 393,620 |
| Prepayments for intangible fixed assets | 0 | 0 | 114 | 114 | 0 | 0 | 0 | 0 |
| Total | 2,718,485 | 268,802 | 221,841 | 26,783 | 3,182,344 | 405,601 | 133,658 | 3,454,287 |

IN CZK THOUSAND

| ACCUMULATED AMORTISATION | BALANCE AT 1 JANUARY 2005 | IMPACT OF THE CONSOLIDAT. METHOD | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2006 |
|--------------------------------------|---------------------------------|--|----------------|---------------|-----------------------------------|---------------|--------------|-----------------------------------|
| Start-up costs | 0 | 0 | 99 | 0 | 99 | 239 | 0 | 338 |
| Research and development | 102,545 | 0 | 52 | 0 | 102,597 | 53 | 0 | 102,650 |
| Software | 725,969 | 10,514 | 113,381 | 27,931 | 821,933 | 81,660 | 8,624 | 894,969 |
| Valuable rights | 1,730,244 | 2,527 | 9,884 | 9 | 1,742,646 | 9,817 | 0 | 1,752,463 |
| Other assets | 942 | 0 | 0 | 0 | 942 | 20 | 0 | 962 |
| Intangible assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2,559,700 | 13,041 | 123,416 | 27,940 | 2,668,217 | 91,789 | 8,624 | 2,751,382 |

IN CZK THOUSAND

| NET BOOK VALUE | BALANCE AT 1 JANUARY 2005 | BALANCE AT 31 DECEMBER 2005 | BALANCE AT 31 DECEMBER 2006 |
|---|---------------------------|-----------------------------|-----------------------------|
| Start-up costs | 0 | 1,093 | 854 |
| Research and development | 754 | 0 | 107 |
| Software | 41,338 | 29,909 | 75,144 |
| Valuable rights | 58 | 242,898 | 233,081 |
| Other assets | 0 | 0 | 99 |
| Intangible assets under construction | 116,635 | 240,227 | 393,620 |
| Prepayments for intangible fixed assets | 0 | 0 | 0 |
| Total | 158,785 | 514,127 | 702,905 |

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

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

The principal additions in 2006 included new SAP software modules (CZK 180 million) and the PARIS software application (CZK 22 million).

5.2. → Tangible Fixed Assets

IN CZK THOUSAND

| ACQUISITION COST | BALANCE AT 1 JANUARY 2005 | IMPACT OF THE CONSOLIDAT. METHOD | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2006 |
|--|---------------------------------|--|------------------|------------------|-----------------------------------|-------------------|-------------------|-----------------------------------|
| Land | 8,022,699 | 0 | 68,985 | 635,764 | 7,455,920 | 30,907 | 270,434 | 7,216,393 |
| Buildings | 21,134,600 | 1,919,078 | 854,827 | 315,436 | 23,593,069 | 1,294,228 | 401,298 | 24,485,999 |
| Individual movable assets | 50,999,969 | 140,068 | 1,992,734 | 1,229,534 | 51,903,237 | 8,245,356 | 2,423,067 | 57,725,526 |
| – Machinery, equipment, and furniture and fixture | 6,855,348 | 140,068 | 215,503 | 469,795 | 6,741,124 | 769,088 | 599,187 | 6,911,025 |
| – Vehicles | 43,822,794 | 0 | 1,775,949 | 734,837 | 44,863,906 | 7,470,787 | 1,809,958 | 50,524,735 |
| – Other | 321,827 | 0 | 1,282 | 24,902 | 298,207 | 5,481 | 13,922 | 289,766 |
| Other assets | 4,350 | 0 | 192 | 0 | 4,542 | 0 | 0 | 4,542 |
| Tangible assets under construction | 2,058,057 | 21,112 | 5,437,978 | 2,804,269 | 4,712,878 | 5,297,299 | 9,192,163 | 818,014 |
| Prepayments | 2,440,510 | 0 | 1,180,723 | 1,926,386 | 1,694,847 | 914,833 | 964,506 | 1,645,174 |
| Valuation difference | 0 | 0 | 8,321 | 0 | 8,321 | 0 | 0 | 8,321 |
| Total | 84,660,185 | 2,080,258 | 9,543,760 | 6,911,389 | 89,372,814 | 15,782,623 | 13,251,468 | 91,903,969 |

IN CZK THOUSAND

| ACCUMULATED DEPRECIATION | BALANCE AT 1 JANUARY 2005 | IMPACT OF THE CONSOLIDAT. METHOD | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2006 |
|--|---------------------------------|--|------------------|------------------|-----------------------------------|------------------|------------------|-----------------------------------|
| Buildings | 11,591,971 | 146,515 | 904,743 | 582,100 | 12,061,129 | 511,337 | 209,002 | 12,363,464 |
| Individual movable assets | 34,411,439 | 66,821 | 1,995,455 | 1,191,793 | 35,281,922 | 2,774,968 | 2,247,790 | 35,809,100 |
| – Machinery, equipment, and furniture and fixture | 5,414,393 | 66,821 | 336,035 | 437,700 | 5,379,549 | 473,283 | 523,734 | 5,329,098 |
| – Vehicles | 28,804,396 | 0 | 1,574,087 | 677,980 | 29,700,503 | 2,245,551 | 1,710,239 | 30,235,815 |
| – Other | 192,650 | 0 | 85,333 | 76,112 | 201,871 | 56,135 | 13,817 | 244,189 |
| Other assets | 402 | 0 | 6 | 14 | 394 | 8 | 0 | 402 |
| Tangible assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepayments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Valuation difference | 0 | 0 | 0 | 0 | 0 | 584 | 0 | 584 |
| Total | 46,003,812 | 213,336 | 2,900,204 | 1,773,907 | 47,343,445 | 3,286,897 | 2,456,792 | 48,173,550 |

IN CZK THOUSAND

| PROVISIONS | BALANCE AT 1 JANUARY 2005 | IMPACT OF THE CONSOLIDAT. METHOD | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DECEMBER 2006 |
|--|---------------------------------|--|----------------|------------------|-----------------------------------|----------------|----------------|-----------------------------------|
| Land | 7,420 | 0 | 4,526 | 7,420 | 4,526 | 3,277 | 4,526 | 3,277 |
| Buildings | 134,225 | 0 | 82,756 | 134,225 | 82,756 | 70,702 | 82,756 | 70,702 |
| Individual movable assets | 783,117 | 0 | 533,360 | 783,213 | 533,264 | 304,491 | 533,283 | 304,472 |
| – Machinery, equipment, and furniture and fixture | 3,304 | 0 | 6,060 | 3,400 | 5,964 | 2,916 | 5,983 | 2,897 |
| – Vehicles | 779,813 | 0 | 527,300 | 779,813 | 527,300 | 301,575 | 527,300 | 301,575 |
| – Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 8 | 0 | 0 | 0 | 8 | 0 | 8 | 0 |
| Tangible assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepayments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 924,770 | | 924,770 | 1,250,252 | 620,554 | 378,470 | 620,573 | 378,451 |

| IN CZK THOUSAND | | | |
|---|---------------------------|-----------------------------|-----------------------------|
| NET BOOK VALUE | BALANCE AT 1 JANUARY 2005 | BALANCE AT 31 DECEMBER 2005 | BALANCE AT 31 DECEMBER 2006 |
| Land | 8,015,279 | 7,451,394 | 7,213,116 |
| Buildings | 9,408,404 | 11,449,185 | 12,051,833 |
| Individual movable assets | 15,805,413 | 16,088,051 | 21,611,954 |
| – Machinery, equipment, and furniture and fixture | 1,437,651 | 1,355,611 | 1,579,030 |
| – Vehicles | 14,238,585 | 14,636,104 | 19,987,345 |
| – Other | 129,177 | 96,336 | 45,577 |
| Other assets | 3,940 | 4,140 | 4,140 |
| Tangible assets under construction | 2,058,057 | 4,712,878 | 818,014 |
| Prepayments | 2,440,510 | 1,694,847 | 1,645,174 |
| Valuation difference | 0 | 8,321 | 7,737 |
| Total | 37,731,603 | 41,408,816 | 43,351,968 |

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

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

Vehicles principally comprise rail vehicles (locomotives, passenger coaches, wagons and other rail vehicles) used in the course of providing freight and passenger transportation services. On the basis of stock count procedures and analyses, the Company has identified asset components, specifically rail vehicles, where there is significant uncertainty regarding their future utilisation. These assets have been provided for as equal to the difference between the net book value and estimated fair value (typically the net proceeds of the sale or disposal of the relevant asset). As disclosed in Note 3.19, 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.

The most significant items of prepayments for tangible fixed assets include the amount of CZK 802,210 thousand comprising prepayments for the acquisition of the Ampz and Bmz passenger coaches (first and second class wagons) and the amount of CZK 617,586 thousand including prepayments for the acquisition of the class 380 electrical three-system locomotives.

The most significant disposals of tangible assets included the disposal of passenger coaches at the net book value of CZK 127,724 thousand and wagons at the net book value of CZK 330,761 thousand through the sale for lease-back to ING Lease (C.R.), s.r.o. In addition, freight rail vehicles at the net book value of CZK 49,467 thousand were sold to Čechofracht a.s.. Another significant disposal included the disposal of buildings and plots of land as a result of the sale of these assets to SŽDC as part of the settlement of property relations at the net book value of CZK 90,783 thousand.

The most significant additions to tangible fixed assets included train sets of class 471 class in the amount of CZK 1,365,112 thousand and train sets of class 680 (Pendolino) in the amount of CZK 4,625,791 thousand put into use.

5.2.1. → Pledged Assets

The Parent Company holds assets that were pledged as security – electrical train sets of class 471 at an acquisition cost of CZK 1,234,625 thousand.

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

The aggregate amount of tangible fixed assets not reported on the face of the balance sheet as of 31 December 2006 was CZK 1,750 million (2005: CZK 1,540 million). These include items under CZK 10 thousand that are recorded only in the underlying operating records. These items are recognised in expenses at the moment of acquisition in accordance with applicable legislation.

5.2.3. → Investment Grants

Investment grants received in 2006 amounted to CZK 460,260 thousand. The principal portion of the received investment grants are the grants from the State Fund of Transport Infrastructure which amounted to CZK 218,271 thousand (2005: CZK 443,864 thousand).

5.2.4. → Assets Held under Finance Leases

IN THOUSAND CZK

| | DATE OF INCEPTION | TERM IN MONTHS | TOTAL LEASE VALUE | PAYMENTS MADE IN 2005 | PAYMENTS MADE IN 2006 | DUE IN 2007 | DUE IN THE FOLLOWING YEARS |
|--------------------------|----------------------|-------------------|-------------------------|-----------------------------|-----------------------------|----------------|----------------------------------|
| AU analyzor | 06/2003 | 36 | 2,095 | 1,163 | 698 | 234 | 0 |
| Wagons | | | | | | | |
| – Sggmrss | 10/2005 | 96 | 145,613 | 4,396 | 18,202 | 18,202 | 104,813 |
| – Tadmss & Tadmss | 04/2006 | 96 | 294,719 | 0 | 17,024 | 36,747 | 240,948 |
| – Habbillnss | 12/2005 | 96 | 866,711 | 0 | 82,770 | 107,212 | 676,729 |
| – Zacns | 04/2006 | 96 | 81,276 | 0 | 6,209 | 10,160 | 64,907 |
| – Sgnss | 12/2006 | 123 | 418,263 | 0 | 0 | 31,369 | 386,894 |
| Class 854 motor vehicles | 01/2006 | 126 | 311,176 | 0 | 12,966 | 31,117 | 267,093 |
| Class 709 locomotives | 12/2006 | 120 | 58,940 | 0 | 0 | 5,895 | 53,045 |
| Cars | 11/2003 | 36 | 988 | 713 | 275 | 0 | 0 |
| Cars | 07/2004 | 36 | 1,201 | 634 | 352 | 215 | 0 |
| Cars | 08/2004 | 36 | 929 | 430 | 315 | 184 | 0 |
| Cars ^{*)} | 11/2004 | 48 | 966 | 0 | 281 | 440 | 330 |
| Cars ^{*)} | 11/2005 | 48 | 495 | 0 | 116 | 174 | 320 |
| Cars ^{*)} | 12/2005 | 36 | 541 | 0 | 137 | 206 | 188 |
| Cars | 10/2006 | 48 | 771 | 0 | 48 | 192 | 531 |
| Cars | 2003 | 36 | 2,080 | 1,798 | 282 | 0 | 0 |
| Technology units | 01/2005 | 60 | 72,923 | 13,236 | 14,823 | 14,823 | 30,041 |
| Technology units | 08/2005 | 48 | 10,845 | 1,130 | 2,711 | 2,711 | 4,293 |
| Technology units | 04/2006 | 48 | 8,146 | 0 | 1,528 | 2,036 | 4,582 |
| Technology units | 11/2006 | 60 | 13,620 | 0 | 454 | 2,721 | 10,445 |
| Technology units | 12/2006 | 48 | 11,472 | 0 | 239 | 2,868 | 8,365 |
| | | | 2,303,770 | 23,500 | 159,430 | 267,506 | 1,853,524 |

^{*)} Lease was transferred from OHL, a.s. to TSS, a.s. in 2006

Assets held under finance leases are not included in the assets reported on the consolidated balance sheet. The above figures are net of VAT and include a commission to the leasing company. Only the leases of cars, where VAT cannot be deducted, include the VAT amount.

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

The most significant sales in the consolidation group were effected between the Parent Company and ČD-Telematika a.s. where the gains of the subsidiary for the year ended 31 December 2006 amounted to CZK 15,260 thousand (2005: CZK 16,663 thousand). Other sales included those between the Parent Company and Traťová strojní společnost, a.s. where the gains of the subsidiary amounted to CZK 53,575 thousand (2005: immaterial). In addition, ČD-Telematika a.s. is the supplier of its own software for the Parent Company which is treated as the Group's expense for consolidation purposes.

5.3. → Non-Current Financial Assets

5.3.1. → Equity Investments in Subsidiaries

AS OF 31 DECEMBER 2006 → IN CZK THOUSAND

| ENTITY | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT FOR 2006 | REVALUATION 31 DEC 2006 |
|------------------------------------|------------------------------|---------------|---------------|----------------------|--------|-----------------|-------------------------|
| RAILREKLAM, spol. s r.o. | Prague 1, Klimentská 36/1652 | 29,250 | 10,003 | 100 | 39,253 | 4,095 | 39,253 |
| ČD travel, s.r.o. | Prague 1, Hybernská 1034 | 7,500 | -262 | 100 | 7,238 | 70 | 7,238 |
| Dopravní vzdělávací institut, a.s. | Prague 1, Hybernská 1014/13 | 3,200 | 2,754 | 100 | 5,954 | 1,955 | 5,954 |
| ČD Generalvertretung GmbH | FRG Frankfurt am/M | 1,592 | -228 | 100 | 2,987 | *) | 1,364 |
| Koleje Czeskie Sp. z o.o. | Hoza 63/67, Warszawa, Polsko | 761 | 0 | 100 | 761 | 0 | 761 |
| RailReal a.s. | Prague 3, Olšanská 1a | 660 | -115 | 66 | 826 | -834 | 545 |
| ČD Realty a.s. | Prague 1, Hybernská 1034/5 | 1,020 | 291 | 51 | 2,571 | 856 | 1,311 |
| Smíchov Station Development, a.s. | Prague 8, Ke Štvanici 655/1 | 1,020 | -978 | 51 | 82 | -1,185 | 42 |
| RAILLEX, a.s. | Prague 1, Hybernská 1014/13 | 1,020 | -15 | 51 | 1,970 | -30 | 1,005 |
| Trade CDT s.r.o. | Prague 3, Pernerova 2819/2a | 500 | -500 | 51 | -178 | -573 | 0 |
| Total | | 46,523 | 10,950 | | | | 57,473 |

*) The figure is not available.

AS OF 31 DECEMBER 2005 → IN CZK THOUSAND

| ENTITY | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT FOR 2005 | REVALUATION 31 DEC 2005 |
|------------------------------------|-------------------------------|---------------|--------------|----------------------|--------|-----------------|-------------------------|
| RAILREKLAM, spol. s r.o. | Prague 1, Klimentská 36/1652 | 29,250 | 6,761 | 100 | 36,011 | 4,239 | 36,011 |
| ČD travel, s.r.o. | Prague 1, Hybernská 1034 | 7,500 | -332 | 100 | 7,168 | -332 | 7,168 |
| Dopravní vzdělávací institut, a.s. | Prague 1, Hybernská 1014/13 | 3,200 | 932 | 100 | 4,132 | 932 | 4,132 |
| ČD Generalvertretung GmbH | FRG Frankfurt am/M | 1,592 | -142 | 100 | 2,987 | 2,919 | 1,450 |
| RailReal a.s. | Prague 3, Olšanská 1a | 660 | 442 | 66 | 1,669 | -439 | 1,102 |
| ČD Realty a.s. | Prague 3, Prvního pluku 2a/81 | 1,020 | -145 | 51 | 1,715 | 47 | 875 |
| Smíchov Station Development, a.s. | Prague 1, Revoluční 655/1 | 1,020 | -302 | 51 | 1,267 | -733 | 718 |
| Trade CDT s.r.o. | Prague 3, Pernerova 2819/2a | 500 | 0 | 51 | 395 | -105 | 500 |
| Total | | 44,742 | 7,214 | | | | 51,956 |

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 Parent Company became the sole owner of RAILREKLAM, spol. s r.o. which is engaged in advertising activities specifically related to railroad transportation.

ČD travel, s.r.o., registered in the Register of Companies on 1 August 2005, principal activities: travel agency. On 10 October 2006, the Parent Company, as the sole owner of ČD travel, s.r.o., approved the increase in the share capital of the company of CZK 7 million through the cash investment of OSŽ which therefore became a new owner of ČD travel, s.r.o. The increase was recorded in the Register of Companies on 8 March 2007. As of that date, the equity investment of České dráhy, a.s. in ČD travel, s.r.o. decreased to 51.7 percent.

Dopravní vzdělávací institut, a.s., registered in the Register of Companies on 21 September 2005, principal activities: organisation of professional courses, trainings and other educational events including lecturers activities, teaching of languages.

ČD Generalvertretung GmbH was incorporated following its registration in the Register of Companies on 11 October 2004. It engages in the representation of the Company in its business and other interests abroad, predominantly in conclusion and mediation of contracts for freight transport.

Koleje Czeskie Sp. Z o.o., registered in the Register of Companies on 18 December 2006. It engages in the representation of business and other interests of the Parent Company abroad, predominantly mediation of contracts for freight transportation.

RailReal a.s. was incorporated following its registration in the Register of Companies on 6 December 2000. The Parent 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. was incorporated following its registration in the Register of Companies on 16 November 2004. It is engaged in investment construction engineering activities, preparation and implementation of revitalisation projects and other related activities.

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

RAILLEX, a.s., registered in the Register of Companies on 17 June 2006, principal activities: storage of goods and cargo handling.

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

5.3.2. Equity Investments in Associates

AS OF 31 DECEMBER 2006 → IN CZK THOUSAND

| BUSINESS NAME | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT FOR 2006 | REVALUATION 31 DEC 2006 |
|-----------------------------------|-----------------------------|--------------|--------------|----------------------|--------|-----------------|-------------------------|
| CR-City a.s. | Prague 3, Olšanská 1a | 680 | 247 | 34 | 2,727 | 2,391 | 927 |
| Masaryk Station Development, a.s. | Prague 3, Olšanská 1a | 680 | -680 | 34 | -231 | -330 | 0 |
| XT-Card a.s. | Prague 8, Sokolovská 100/94 | 4,000 | 908 | 20.4 | 12,271 | 2,272 | 4,908 |
| BOHEMIACOMBI, spol. s r.o. | Prague 1, Opletalova 6 | 822 | 3,700 | 20 | 22,612 | -5,796 | 4,522 |
| Celkem | | 6,182 | 4,175 | | | | 10,357 |

In March 2006, ČD-Telematika a.s. purchased 40 shares of XT-Card a.s., principal activity – provision of software, data processing, purchase and sale of goods. ČD-Telematika a.s. thus became a 40 percent owner of the company and therefore the indirect influence of the Parent Company represents 20.4 percent.

AS OF 31 DECEMBER 2005 → IN CZK THOUSAND

| BUSINESS NAME | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT FOR 2005 | REVALUATION 31 DEC 2005 |
|-----------------------------------|------------------------|--------------|--------------|----------------------|--------|-----------------|-------------------------|
| CR-City a.s. | Prague 3, Olšanská 1a | 680 | -566 | 34 | 336 | -263 | 114 |
| Masaryk Station Development, a.s. | Prague 3, Olšanská 1a | 680 | -647 | 34 | 99 | -1,713 | 33 |
| BOHEMIACOMBI, spol. s r.o. | Prague 1, Opletalova 6 | 822 | 4,860 | 20 | 28,408 | -1,859 | 5,682 |
| Celkem | | 2,182 | 3,647 | | | | 5,829 |

5.3.3. Other Non-Current Equity Investments and Securities

IN CZK THOUSAND

| TYPE OF SECURITY AND INVESTMENT | VALUATION AT 31 DEC 2006 | VALUATION AT 31 DEC 2005 |
|-------------------------------------|--------------------------|--------------------------|
| PRaK, a.s. | 850 | 850 |
| STROJEXPORT, a.s. | 2,300 | 2,300 |
| Hit Rail B.V. | 4,017 | 4,017 |
| EUROFIMA | 262,873 | 262,873 |
| INTERCONTAINER-INTERFRIGO, o.s. | 5,189 | 5,189 |
| INTERNATIONALE SPEDITION DĚČÍN a.s. | 8 | 8 |
| Celkem | 275,237 | 275,237 |

EUROFIMA is an international organisation engaged in the funding of the purchases and modernisation of rail vehicles. The Parent Company owns 1 percent of the share capital of this organisation.

5.4. → Inventory

| IN CZK THOUSAND | 31. 12. 2006 | 31. 12. 2005 |
|---|------------------|------------------|
| Spare parts for machinery and equipment | 358,733 | 388,013 |
| Spare parts and other components for rail vehicles and locomotives | 524,170 | 496,530 |
| Other spare parts and other minor components | 223,213 | 235,261 |
| Fuels and other oil products | 20,461 | 37,277 |
| Switches, turntables, traverse tables and components for rail superstructures | 148,730 | 168,296 |
| Work in progress | 34,104 | 16,024 |
| Prepayments for inventory | 3 | 22,538 |
| Other | 612,618 | 629,332 |
| Total cost | 1,922,032 | 1,993,271 |
| Provisions | 29,001 | 56,760 |
| Total net book value | 1,893,031 | 1,936,511 |

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

The decrease in provisioning arises from the fact that during 2006 the Parent Company undertook a detailed assessment of the future utilisation of inventories, specifically those that were provided for in the prior period due to existing uncertainties. Based upon this assessment, a portion of the material was consumed, disposed of or sold and a portion was newly earmarked as assets required for use in the long-term.

5.5. → Short-Term Receivables**5.5.1. → Trade Receivables**

IN CZK THOUSAND

| YEAR | CATEGORY | BEFORE DUE DATE | PAST DUE (IN DAYS) | | | | | TOTAL | TOTAL |
|------|------------|-----------------|--------------------|---------|---------|---------|-----------------|---------|------------------|
| | | | 0-90 | 91-180 | 181-365 | 366-730 | 731 AND GREATER | | |
| 2006 | Gross | 3,192,733 | 389,588 | 23,804 | 37,483 | 53,670 | 56,304 | 560,849 | 3,753,582 |
| | Provisions | 50 | 5,667 | 958 | 29,120 | 45,124 | 50,500 | 131,369 | 131,419 |
| | Net | 3,192,683 | 383,921 | 22,846 | 8,363 | 8,546 | 5,804 | 429,480 | 3,622,163 |
| 2005 | Gross | 2,665,011 | 284,598 | 235,261 | 36,060 | 50,553 | 18,891 | 625,363 | 3,290,374 |
| | Provisions | 0 | 0 | 57,432 | 24,445 | 46,858 | 17,692 | 146,427 | 146,427 |
| | Net | 2,665,011 | 284,598 | 177,829 | 11,615 | 3,695 | 1,199 | 478,936 | 3,143,947 |

5.5.2. → Tax Receivables

Tax receivables largely consisted of receivables arising from VAT.

5.5.3. → Prepayments Made

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

5.6. → Estimated Receivables

IN CZK THOUSAND

| | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|--|------------------------|------------------------|
| Cross-border rentals for passenger coaches | 466,023 | 552,308 |
| Cross-border rentals for freight wagons | 229,473 | 224,000 |
| Income from international transportation | 645,138 | 432,981 |
| Other | 213,787 | 54,040 |
| Total estimated receivables | 1,554,421 | 1,263,329 |

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 2006 which were not billed to the foreign railway organisations and an amount arising from unsettled operating output in border regions in respect of the neighbouring railway organisations. This receivable is typically settled with a delay of one or more months.

5.7. → Equity

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

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

The revaluation of the non-current financial assets using the equity method of accounting amounted to CZK 15,125 thousand, of which CZK 200 thousand is presented as part of the minority equity.

The loss of the previous reporting period of CZK 587,383 thousand was offset against the share premium (of the Parent Company) and the profit (of subsidiaries) was allocated to retained earnings and to the statutory reserve fund.

The increase in statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 328,814 thousand, of which CZK 303,864 charged against the share premium, CZK 18,322 thousand from loan repayments by employees and allocation of the 2005 profit of CZK 6,628 thousand.

The General Meeting of the Parent Company decided to settle the 2005 loss of CZK 589,794 thousand from the share premium in accordance with Section 52 (4) (b) of the Company's Articles of Association. The General Meeting of the Parent Company decided on the settlement of the accumulated loss for 2003 and 2004 in the amount of 1,546,139 thousand from the share premium in accordance with Section 52 (4) (b) of the Company's Articles of Association.

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

The share in the equity-accounted profit of CZK 200 thousand was allocated to the consolidation reserve fund.

The Consolidated Statement of Changes in Equity line item "Impact of the equity investment of OHL ŽS in TSS" represents the investment of OHL ŽS, a.s. in the subsidiary TSS in 2006 and the decrease of ČD's influence to 51 percent. In relation to the equity investment, TSS recognised the deferred tax liability arising from different accounting and tax carrying values of the invested fixed assets in the aggregate amount of CZK 77,678 thousand in retained earnings.

5.8. → Reserves

IN CZK THOUSAND

| | BALANCE AT 1 JAN 2005 | CHARGE | USE | BALANCE AT 31 DEC 2005 | CHARGE | USE | BALANCE AT 31 DEC 2006 |
|---------------------------------------|--------------------------|----------------|----------------|---------------------------|----------------|----------------|---------------------------|
| Reserve for discounts and claims | 35,197 | 29,437 | 35,197 | 29,437 | 28,155 | 29,437 | 28,155 |
| Reserve for rents | 15,477 | 16,271 | 15,477 | 16,271 | 13,906 | 16,271 | 13,906 |
| Reserve for legal disputes | 0 | 9,290 | 0 | 9,290 | 10,107 | 9,290 | 10,107 |
| Reserve for repairs of assets | 0 | 0 | 0 | 0 | 14,462 | 0 | 14,462 |
| Reserve for outstanding vacation days | 132,982 | 75,443 | 132,982 | 75,443 | 46,450 | 75,443 | 46,450 |
| Reserve for bonuses | 0 | 0 | 0 | 0 | 37,680 | 0 | 37,680 |
| Other reserves | 0 | 3,783 | 0 | 3,783 | 9,707 | 3,783 | 9,707 |
| Total reserves | 183,656 | 134,224 | 183,656 | 134,224 | 160,467 | 134,224 | 160,467 |

The significant reduction of the reserve for outstanding vacation days in 2006 was due to the increased use of vacation days by employees of the Parent Company and the reduction of the number of employees. In 2006, the Parent Company newly created a reserve for bonuses for customers of freight transportation which relates to contracts entered into for 2006. All of the reserves charged in the year ended 31 December 2006 are non-tax deductible.

5.9. → Long-Term Payables

IN CZK THOUSAND

| | BALANCE AT 31 DECEMBER 2006 | BALANCE AT 31 DECEMBER 2005 |
|-------------------------------------|-----------------------------|-----------------------------|
| Payable to EUROFIMA | 3,711,770 | 3,045,467 |
| Payable to the City of Karlovy Vary | 44,338 | 44,338 |
| Long-term supplier payables | 438,074 | 0 |
| Other | 102,431 | 161,142 |
| Total long-term payables | 4,296,613 | 3,250,947 |

In 2004, the Parent Company received a long-term loan from EUROFIMA to finance the purchase of rail vehicles. This loan was increased in the year ended 31 December 2006 by EUR 30 million. This loan is collateralised by a state guarantee. A portion of the long-term payables represents the Company's payable to the City of Karlovy Vary in connection with the construction of the bus and train station in Karlovy Vary.

Long-term supplier payables include payables to a supplier arising from repairs of wagons.

The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2006 and 2005 was CZK 42,827 thousand and CZK 19,371 thousand, respectively.

5.10. → Short-Term Payables

5.10.1. → Trade Payables

IN CZK THOUSAND

| YEAR | CATEGORY | BEFORE DUE DATE | PAST DUE (IN DAYS) | | | | TOTAL | TOTAL | |
|------|------------|-----------------|--------------------|--------|---------|---------|-------|---------|------------------|
| | | | 0-90 | 91-180 | 181-365 | 366-730 | | | 731 AND GREATER |
| 2006 | Short-term | 4,783,968 | 332,812 | 3,825 | 3,245 | 30,312 | 1,858 | 372,052 | 5,156,020 |
| 2005 | Short-term | 3,452,216 | 279,881 | 13,601 | 6,652 | 12,613 | 7,834 | 320,581 | 3,772,797 |

5.10.2. → Tax Payables and Subsidies

As of 31 December 2006, tax payables were largely composed of personal income taxation deducted from the gross wages of the Company's employees, VAT in accordance with the VAT tax return for December 2006 and an additional payment of road tax for 2006. In addition, they were composed of an outstanding amount of the investment subsidy received by the Parent Company from municipalities of CZK 4,310 thousand (2005: CZK 43,642 thousand).

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

5.10.3. → Prepayments Received

As of 31 December 2006, short-term prepayments received amount to CZK 425,076 thousand (2005: CZK 339,167 thousand) and were largely composed of rent prepayments.

5.11. → Estimated Payables

IN CZK THOUSAND

| | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|---|------------------------|------------------------|
| Rental for passenger coaches of foreign companies in the Czech Republic | 435,493 | 514,825 |
| Rental for freight wagons of foreign companies in the Czech Republic | 102,904 | 105,000 |
| Costs of international transportation | 455,027 | 190,483 |
| Other | 327,069 | 354,507 |
| Total estimated payables | 1,320,493 | 1,164,815 |

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

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

5.12. → Bank Loans

Long-term Bank Loans

IN CZK THOUSAND

| BANK | CURRENCY | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 | INTEREST RATE | COLLATERAL FORM |
|--------------|----------|------------------------|------------------------|------------------|-----------------|
| ČSOB | EUR | 1,972,248 | 1,422,839 | 3M EURIBOR + 0,5 | State guarantee |
| Total | | 1,972,248 | 1,422,839 | | |

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

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

Short-Term Bank Loans

As of 31 December 2006, the portion of long-term bank loans maturing within one year from the consolidated balance sheet date amounts to CZK 281,749 thousand. As of 31 December 2005, the portion of bank loans maturing within one year from the balance sheet amounted to CZK 281,088 thousand. The Group records the draw-down of an overdraft loan facility amounting to CZK 693,850 thousand and CZK 327,138 thousand as of 31 December 2006 and 2005, respectively, as a short-term bank loan.

The amount of capitalised interest on the loan from ČSOB for the year ended 31 December 2006 was CZK 21,817 thousand. Other interest on the loan from ČSOB in the amount of CZK 37 million is reported as interest expenses of the current period after train sets of class 680 (Pendolino) were put into use.

The amount of capitalised interest on the loan from ČSOB for the year ended 31 December 2005 was CZK 26,838 thousand.

5.13. → Income Taxes

5.13.1. → Tax Payable

The Parent Company has reported a tax loss since its incorporation on 1 January 2003. The tax loss amounted to CZK 2,243,833 thousand, CZK 2,726,682 thousand, CZK 2,894,691 thousand and CZK 1,294,660 thousand for the years ended 31 December 2006, 2005, 2004 and 2003, respectively. The total accumulated tax loss amounted to CZK 9,159,866 thousand as of 31 December 2006. The most significant impact on the difference between the accounting and tax loss results from the difference between the accounting and tax depreciation charges.

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

5.13.2. → Deferred Taxation

The Group has determined deferred tax as follows:

| IN CZK THOUSAND | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|--|------------------------|------------------------|
| Tangible and intangible fixed assets | -1,390,023 | -959,288 |
| Trade receivables | 8,418 | 23,352 |
| Inventory | 5,721 | 12,839 |
| Reserves | 19,249 | 31,306 |
| Unpaid contractual penalties | -30,954 | -23,623 |
| Unpaid supplier contractual penalties | 134 | 23,544 |
| Revaluation of financial investments | -3,532 | -2,824 |
| Accumulated tax loss | 2,226,540 | 1,657,745 |
| Deferred tax from consolidation adjustments | 83,531 | 28,449 |
| Deferred tax asset – unrecognised | 919,084 | 791,500 |
| Tangible and intangible fixed assets | -151,877 | -61,455 |
| Trade receivables | 6,535 | 7,927 |
| Inventory | 1,250 | 1,109 |
| Reserves | 2,329 | - |
| Other | -95 | 1,963 |
| Accumulated tax loss | 907 | 39,616 |
| Deferred tax from consolidation adjustments | 10,684 | 35,626 |
| Deferred tax liability (-) asset (+) – recognised | -130,267 | 24,786 |
| Total deferred tax asset | 788,817 | 816,286 |

The aggregate deferred tax amount is predominantly impacted by the Parent Company. The Parent Company has decided not to recognise the deferred tax asset on the grounds of prudence and due to the uncertainty regarding the availability of future taxable profits. The recognised deferred taxation predominantly relates to assets and liabilities of the subsidiaries. The increase in the recognised deferred tax liability is predominantly due to the equity investment of OHL ŽS in TSS, as disclosed in Note 5.7.

5.14. → Accrued Expenses and Deferred Income

Accrued expenses predominantly comprise the estimated additional payment of contractual wages to the Group's management for the year ended 31 December 2006.

Deferred income predominantly includes rental income from discount cards for passenger transportation, rental income from two gas stations leased to OMV, which was prepaid for 20 years, and lease of optical cables prepaid until 2023.

5.15. → Income from the Sale of the Company's Products and Services

IN CZK THOUSAND

| | YEAR ENDED 31 DECEMBER 2006 | | | YEAR ENDED 31 DECEMBER 2005 | | |
|--|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|-------------------|
| | IN-COUNTRY | CROSS-BORDER | TOTAL | IN-COUNTRY | CROSS-BORDER | TOTAL |
| Income from freight transportation | 5,915,311 | 11,337,074 | 17,252,385 | 5,575,471 | 10,903,974 | 16,479,445 |
| Income from passenger transportation | 4,198,558 | 1,714,440 | 5,912,998 | 3,918,749 | 1,519,423 | 5,438,172 |
| Income from other transportation | 63,000 | 0 | 63,000 | 20,346 | 0 | 20,346 |
| Income from securing railway routes | 11,479,422 | 0 | 11,479,422 | 11,243,979 | 0 | 11,243,979 |
| Income from securing modernisation and development railway routes | 0 | 0 | 0 | 34,817 | 0 | 34,817 |
| Income from other services | 2,729,981 | 176,194 | 2,906,175 | 2,146,776 | 95,212 | 2,241,988 |
| Total income from the sale of the Company's products and services | 24,386,272 | 13,227,708 | 37,613,980 | 22,940,138 | 12,518,609 | 35,458,747 |

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

Income from securing railway routes represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 4,699,422 thousand (2005: CZK 4,488,040 thousand) and operability of CZK 6,780,000 thousand (2005: CZK 6,755,939 thousand). A description of the transactions between the Parent Company and SŽDC is provided in Note 8.2.

Income from other services includes proceeds from the other activities of the Group, specifically income from the lease of land, buildings and non-residential premises and apartments, income from the machinery work, construction work, sales from products and services of electronic communication, informatics and telematics, sales from testing and research, income for commercial-technical services, income from heat and electricity distribution and income from health insurers.

5.16. → Consumed Purchases

IN CZK THOUSAND

| | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---------------------------------|------------------------|------------------------|
| Consumed material | 2,465,248 | 2,289,285 |
| Consumed energy | 2,889,525 | 2,623,668 |
| Consumption of fuels | 2,230,504 | 2,163,347 |
| Total consumed purchases | 7,585,277 | 7,076,300 |

5.17. → Services

| IN CZK THOUSAND | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---|------------------------|------------------------|
| Repairs and maintenance | 4,243,442 | 3,722,721 |
| Travel expenses | 267,581 | 256,816 |
| Other rental | 162,656 | 79,901 |
| Use of railway routes, management of operations | 6,059,680 | 5,695,136 |
| Rent for railway coaches and wagons | 1,145,615 | 1,145,050 |
| Freight charges | 404,000 | 247,254 |
| Services of dining and sleeping carriages | 149,876 | 138,016 |
| Services associated with the use of buildings | 255,454 | 223,604 |
| Cleaning and shifting of coaches and wagons | 269,865 | 133,668 |
| Other services | 2,127,967 | 1,161,527 |
| Total | 15,086,136 | 12,803,693 |

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

5.18. → Change in Reserves and Provisions Relating to Operating Activities

| IN CZK THOUSAND | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---|------------------------|------------------------|
| Change in reserves | 26,242 | -49,432 |
| Change in provisions against receivables | -22,355 | 83,924 |
| Change in provisions against tangible fixed assets | -242,946 | -304,216 |
| Change in provisions against non-current financial assets | 0 | -2,521 |
| Change in provisions against inventory | -27,758 | -45,667 |
| Total change in reserves and provisions relating to operating activities | -266,817 | -317,912 |

The decrease in the amount of the provision against fixed assets is disclosed in Note 5.2. and the decrease in the provision against inventory is disclosed in Note 5.4.

5.19. → Other Operating Income

| IN CZK THOUSAND | 2006 | 2005 |
|---|------------------|------------------|
| Settlement of losses from passenger transportation from the State budget including the subsidy for student fare | 2,535,782 | 2,625,704 |
| Settlement of losses from passenger transportation from the regional budgets including the subsidy for student fare | 4,561,631 | 4,469,286 |
| Other subsidies | 588,486 | 720,061 |
| Recoveries of receivables written off and transferred | 72 | 4,240 |
| Contractual penalties and default interest | 75,132 | 116,732 |
| Compensation for damage from insurers and other entities | 123,070 | 122,557 |
| Sundry operating income | 505,590 | 516,480 |
| Total other operating income | 8,389,763 | 8,575,060 |

5.20. → Other Operating Expenses

| IN CZK THOUSAND | 2006 | 2005 |
|---|----------------|----------------|
| Contractual penalties and default interest | 5,001 | 3,947 |
| Write-offs of receivables and transferred receivables | 6,845 | 26,206 |
| Deficits and damage relating to operating activities | 80,652 | 29,033 |
| Insurance | 174,425 | 171,878 |
| Employee uniforms and lump sum payments | 149,038 | 151,764 |
| Compensation for asset damage and impaired health | 49,722 | 59,262 |
| Membership allowances | 23,107 | 28,016 |
| Sundry operating charges | 89,317 | 55,562 |
| Total other operating expenses | 578,107 | 525,668 |

5.21. → Other Financial Income and Expenses

Other financial income and expenses largely include foreign exchange rate gains and losses. A significant portion of the positive impact of the exchange rate gains and losses on the results of operations for the year ended 31 December 2006 was due to the positive development of the EUR exchange rate in relation to loans and borrowings in foreign currencies as disclosed in Notes 5.9. and 5.12.

5.22. → Extraordinary Income and Expenses

Extraordinary income in 2006 predominantly includes income from the sale of real estate that was effected in 2005 in the amount of CZK 112,513 thousand, while the expenses related to this sale amounted to CZK 10,485 thousand.

6. → EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

The following table summarises the average recalculated number of the Group's employees and managers for the years ended 31 December 2006 and 2005:

AS OF 31 DECEMBER 2006 → IN CZK THOUSAND

| | HEADCOUNT | WAGES AND SALARIES | SOCIAL SECURITY AND HEALTH INSURANCE | OTHER EXPENSES | TOTAL STAFF COSTS |
|--------------|---------------|-----------------------|--|-------------------|----------------------|
| Staff | 60,282 | 15,800,870 | 5,264,283 | 756,826 | 21,821,979 |
| Management | 312 | 269,485 | 93,202 | 9353 | 372,040 |
| Total | 60,594 | 16,070,355 | 5,357,485 | 766,179 | 22,194,019 |

AS OF 31 DECEMBER 2005 → IN CZK THOUSAND

| | HEADCOUNT | WAGES AND SALARIES | SOCIAL SECURITY AND HEALTH INSURANCE | OTHER EXPENSES | TOTAL STAFF COSTS |
|--------------|---------------|-----------------------|--|-------------------|----------------------|
| Staff | 66,411 | 16,422,088 | 5,416,383 | 645,833 | 22,484,305 |
| Management | 328 | 213,446 | 73,919 | 4,900 | 292,264 |
| Total | 66,739 | 16,635,533 | 5,490,302 | 650,734 | 22,776,569 |

The members of the Parent Company's statutory and supervisory bodies benefited from reduced fares. Cash bonuses for the members of the Group's statutory and supervisory bodies amounted to CZK 8,550 thousand and CZK 3,312 thousand in 2006 and 2005, respectively. Management of the Group is provided with benefits-in-kind taking the form of the use of company cars for private purposes.

7. → CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS

On 24 February 2005, the Parent Company entered into the Framework Lease Contract for the purchase of railway vehicles in the aggregate amount of CZK 1.2 billion. As of 31 October 2006, all railway vehicles were taken over and they are currently being repaid. The Parent Company issued a blank bill with the restrictive clause for the benefit of CitiLeasing, s.r.o as a collateralising instrument in respect of the lease contracts. In compliance with the bill arrangement, the lessor will be entitled to fill in the bill an amount equal to the amount due from the rent and accrued fees, up to 40 percent of the acquisition cost, net of VAT of the leased assets, in the event that the lease contract is breached.

With effect from 1 December 2006, all rights and obligations (transfer of receivables and assumption of debts) were transferred in accordance with the lease contracts including the transfer and receipt of ownership title to property which is the subject of lease financing between CitiLeasing, s.r.o. and Fortis Lease Czech s.r.o.

8. → OTHER INFORMATION

8.1. → Significant Factors Impacting the Group's Operations

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

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designed categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Parent Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. Management of the Parent Company has determined that the funds earmarked in the State budget for settling public service commitments resulting from contracted volumes of long-distance and regional transportation output in 2006 are lower than the aggregate loss.

At the date of the consolidated financial statements, all contracts for regional transportation services among self-governing units and the Parent Company for 2007 were signed. Similarly as in 2006, management of the Parent Company anticipates that the aggregate level of compensation received for the year ending 31 December 2007 will be lower than the aggregate loss from long-distance and regional passenger transportation in the public interest.

The Parent Company operates railway routes on the basis of a three year agreement put in place with SŽDC. The contract for operating railway routes was entered into at the end of 2005 for the years 2006 – 2008. The level of compensation (the Parent Company's income) for operating railway routes, is determined by appendices to the contract for each individual year. The Company pays the amounts to SŽDC, s.o. for the use of railway routes. The amount of the compensation (the Parent Company's expense) is determined by Act No. 526/1990 Coll., on Prices, as amended.

8.2. → Transactions with SŽDC

| YEAR ENDED 31 DECEMBER 2006 → IN CZK THOUSAND | EXPENSES | INCOME |
|---|------------------|-------------------|
| Securing railway routes – management of operation | 0 | 4,699,422 |
| Securing railway routes – maintenance of operability | 0 | 6,780,000 |
| Securing modernisation and development railway routes | 0 | 0 |
| Use of railway routes – passenger transport | 1,597,741 | 0 |
| Use of railway routes – freight transport | 4,383,935 | 0 |
| Total | 5,981,676 | 11,479,422 |

| YEAR ENDED 31 DECEMBER 2005 → IN CZK THOUSAND | EXPENSES | INCOME |
|---|------------------|-------------------|
| Securing railway routes – management of operation | 0 | 4,488,040 |
| Securing railway routes – maintenance of operability | 0 | 6,755,939 |
| Securing modernisation and development railway routes | 0 | 34,817 |
| Use of railway routes – passenger transport | 1,483,719 | 0 |
| Use of railway routes – freight transport | 4,200,261 | 0 |
| Total | 5,683,980 | 11,278,796 |

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

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

Receivables and Payables

As of 31 December 2005, the Parent Company recorded amounts due to and from SŽDC. The total net balance of these amounts represents a payable of CZK 526,594 thousand. The aggregate net amount of balances of these items included payables of CZK 493,428 thousand in the year ended 31 December 2006. The payable is reported in 'Trade payables'.

In addition, the Parent Company reported a payable in 2006 arising from unbilled supplies from SŽDC reported as an estimated payable which amounted to CZK 119,428 thousand as of 31 December 2006. In addition, in 2005, the Parent Company reported a payable arising from unbilled supplies from SŽDC, reported as an estimated payable, which amounted to CZK 79,775 thousands as of 31 December 2005.

8.3. → Post Balance Sheet Events

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

As of 1 January 2007, the Parent Company formed a subsidiary, DPOV, a.s., to be included in the České dráhy Consolidation Group in 2007. The entity was formed by a non-cash investment of the part of business at the carrying amount of CZK 386,395 thousand. ČD is the sole owner of the entity. The newly formed entity is engaged in the maintenance and repair of rail vehicles.

On 13 February 2007, the decrease in the share capital of ČD-Telematika a.s. to CZK 2,042,105 thousand was registered in the Register of Companies. ČD, a.s. thus increased its equity investment, as described in Note 5.3.1.

The Parent Company intends to spin off the freight transportation business into a standalone company in 2007. As planned by management of the Company, the freight transportation business will be conducted by a newly formed subsidiary ČD Cargo, a.s. to be formed by an investment of the part of the business engaged in freight transportation.

financial statements ČD, a.s.

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FINANCIAL STATEMENTS AS OF 31 DECEMBER 2006

| | |
|---------------------|---|
| Name of the Company | České dráhy, a.s. |
| Registered Office | Nábřeží L. Svobody 1222, Prague 1, 110 15 |
| Legal Status | Joint Stock Company |
| Corporate ID | 70 99 42 26 |

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Statement of Changes In Equity

Cash Flow Statement

Notes to the Financial Statements

Financial statements was compiled on 7 May 2007

Statutory body of the accounting unit



Josef Bazala

THE CHAIRMAN OF THE BOARD OF DIRECTORS AND DIRECTOR GENERAL

BALANCE SHEET FULL VERSION

| ↓ AS OF 31. 12. 2006 → IN CZK THOUSAND | 2006 | | | 2005 |
|--|--------------------|--------------------|-------------------|-------------------|
| | GROSS | ADJUSTMENT | NET | NET |
| TOTAL ASSETS | 102,513,193 | -49,533,226 | 52,979,967 | 50,013,419 |
| A. Receivables for subscribed capital | | | | |
| B. Fixed assets | 93,155,572 | -49,415,522 | 43,740,050 | 41,689,100 |
| B.I. Intangible fixed assets | 3,127,170 | -2,523,757 | 603,413 | 368,468 |
| B.I.2. Research and development | 102,757 | -102,650 | 107 | |
| B.I.3. Software | 772,989 | -690,786 | 82,203 | 14,944 |
| B.I.4. Valuable rights | 1,729,359 | -1,729,359 | 0 | |
| B.I.6. Other intangible fixed assets | 1,061 | -962 | 99 | |
| B.I.7. Intangible fixed assets under construction | 521,004 | | 521,004 | 353,524 |
| B.II. Tangible fixed assets | 87,680,969 | -46,891,765 | 40,789,204 | 39,062,474 |
| B.II.1. Land | 7,192,353 | -3,277 | 7,189,076 | 7,427,852 |
| B.II.2. Structures | 22,051,504 | -11,998,661 | 10,052,843 | 9,405,873 |
| B.II.3. Individual movable assets and sets of movable assets | 55,974,235 | -34,889,425 | 21,084,810 | 15,851,698 |
| B.II.6. Other tangible fixed assets | 4,542 | -402 | 4,140 | 4,140 |
| B.II.7. Tangible fixed assets under construction | 814,177 | | 814,177 | 4,678,074 |
| B.II.8. Prepayments for tangible fixed assets | 1,644,158 | | 1,644,158 | 1,694,837 |
| B.III. Non-current financial assets | 2,347,433 | | 2,347,433 | 2,258,158 |
| B.III.1. Equity investments in subsidiaries | 1,957,597 | | 1,957,597 | 1,957,092 |
| B.III.2. Equity investments in associates | 114,599 | | 114,599 | 5,829 |
| B.III.3. Other securities and investments | 275,237 | | 275,237 | 275,237 |
| B.III.6. Acquisition of non-current financial assets | | | | 20,000 |
| C. Current assets | 9,246,063 | -117,704 | 9,128,359 | 8,240,165 |
| C.I. Inventories | 1,852,763 | -23,794 | 1,828,969 | 1,899,670 |
| C.I.1. Material | 1,774,325 | -23,794 | 1,750,531 | 1,866,898 |
| C.I.2. Work in progress and semifinished goods | 67,403 | | 67,403 | 3,975 |
| C.I.4. Animals | 3 | | 3 | 3 |
| C.I.5. Goods | 9,822 | | 9,822 | 6,549 |
| C.I.6. Prepayments for inventory | 1,210 | | 1,210 | 22,245 |
| C.II. Long-term receivables | 15,455 | -293 | 15,162 | 9,128 |
| C.II.1. Trade receivables | 86 | | 86 | 27 |
| C.II.5. Long-term prepayments made | 5,983 | | 5,983 | 3,273 |
| C.II.7. Other receivables | 9,386 | -293 | 9,093 | 5,828 |
| C.III. Short-term receivables | 5,335,395 | -93,617 | 5,241,778 | 4,490,273 |
| C.III.1. Trade receivables | 3,299,723 | -88,461 | 3,211,262 | 2,933,585 |
| C.III.6. State – tax receivables | 108,606 | | 108,606 | 26,575 |
| C.III.7. Short-term prepayments made | 325,368 | | 325,368 | 233,498 |
| C.III.8. Estimated receivables | 1,553,407 | | 1,553,407 | 1,257,979 |
| C.III.9. Other receivables | 48,291 | -5,156 | 43,135 | 38,636 |
| C.IV. Current financial assets | 2,042,450 | | 2,042,450 | 1,841,094 |
| C.IV.1. Cash on hand | 104,569 | | 104,569 | 83,768 |
| C.IV.2. Cash at bank | 1,935,773 | | 1,935,773 | 1,755,218 |
| C.IV.3. Short-term securities and investments | 2,108 | | 2,108 | 2,108 |
| D. I. Other assets | 111,558 | | 111,558 | 84,154 |
| D.I.1. Deferred expenses | 70,185 | | 70,185 | 83,190 |
| D.I.2. Complex deferred expenses | 62 | | 62 | 62 |
| D.I.3. Accrued income | 41,311 | | 41,311 | 902 |

| ↓ | AS OF 31. 12. 2006 → IN CZK THOUSAND | 2006 | 2005 |
|---------------|--|-------------------|-------------------|
| | TOTAL LIABILITIES & EQUITY | 52,979,967 | 50,013,419 |
| A. | Equity | 36,446,972 | 37,151,210 |
| 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 | 16,602,066 | 19,034,484 |
| A.II.1. | Share premium | 16,733,120 | 19,172,917 |
| A.II.2. | Other capital funds | -843,996 | -764,996 |
| A.II.3. | Gains or losses from the revaluation of assets and liabilities | 712,942 | 626,563 |
| A.III. | Statutory funds | 294,305 | 252,659 |
| A.III.2. | Statutory and other funds | 294,305 | 252,659 |
| A.IV. | Retained earnings | | -1,546,139 |
| A.IV.2. | Accumulated losses brought forward | | -1,546,139 |
| A.V. | Profit or loss for the current period (+/-) | -449,399 | -589,794 |
| B. | Liabilities | 16,298,810 | 12,663,303 |
| B.I. | Reserves | 136,298 | 130,441 |
| B.I.4. | Other reserves | 136,298 | 130,441 |
| B.II. | Long-term liabilities | 4,449,456 | 3,090,339 |
| B.II.5. | Long-term prepayments received | 255,274 | 534 |
| B.II.9. | Other payables | 4,194,182 | 3,089,805 |
| B.III. | Short-term liabilities | 8,765,209 | 7,477,045 |
| B.III.1. | Trade payables | 5,200,935 | 3,842,468 |
| B.III.4. | Payables to partners and association members | | 67,140 |
| B.III.5. | Payables to employees | 1,105,735 | 1,224,256 |
| B.III.6. | Social security and health insurance payables | 562,278 | 581,672 |
| B.III.7. | State – tax payables and subsidies | 183,332 | 248,383 |
| B.III.8. | Short-term prepayments received | 426,543 | 336,615 |
| B.III.10. | Estimated payables | 1,285,855 | 1,175,342 |
| B.III.11. | Other payables | 531 | 1,169 |
| B.IV. | Bank loans and borrowings | 2,947,847 | 1,965,478 |
| B.IV.1. | Long-term bank loans | 1,972,248 | 1,422,839 |
| B.IV.2. | Short-term bank loans | 975,599 | 542,639 |
| C. I. | Other liabilities | 234,185 | 198,906 |
| C.I.1. | Accrued expenses | 126,984 | 99,480 |
| C.I.2. | Deferred income | 107,201 | 99,426 |

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

| ↓ | YEAR ENDED 31. 12. 2006 → IN CZK, THOUSAND | 2006 | 2005 |
|----------|--|-------------------|-------------------|
| I. | Sales of goods | 139,899 | 146,494 |
| A. | Costs of goods sold | 107,098 | 115,192 |
| + | Gross margin | 32,801 | 31,302 |
| II. | Production | 37,179,717 | 35,173,616 |
| II.1. | Sales of own products and services | 36,655,743 | 34,901,280 |
| II.2. | Change in internally produced inventory | 63,448 | 5,454 |
| II.3. | Own work capitalised | 460,526 | 266,882 |
| B. | Purchased consumables and services | 22,699,246 | 20,155,233 |
| B.1. | Consumed material and energy | 7,381,182 | 6,972,911 |
| B.2. | Services | 15,318,064 | 13,182,322 |
| + | Added value | 14,513,272 | 15,049,685 |
| C. | Staff costs | 21,402,923 | 22,181,684 |
| C.1. | Payroll costs | 15,505,856 | 16,204,660 |
| C.2. | Remuneration to members of statutory bodies | 3,436 | 3,312 |
| C.3. | Social security and health insurance costs | 5,163,108 | 5,341,499 |
| C.4. | Social costs | 730,523 | 632,213 |
| D. | Taxes and charges | 74,727 | 95,618 |
| E. | Depreciation of intangible and tangible fixed assets | 2,543,968 | 2,394,564 |
| III. | Sales of fixed assets and material | 1,761,035 | 1,026,747 |
| III.1. | Sales of fixed assets | 1,323,212 | 767,098 |
| III.2. | Sales of material | 437,823 | 259,649 |
| F. | Net book value of fixed assets and material sold | 1,008,701 | 606,551 |
| F.1. | Net book value of sold fixed assets | 719,562 | 390,462 |
| F.2. | Book value of sold material | 289,139 | 216,089 |
| G. | Change in reserves and provisions relating to operating activities and complex deferred expenses | -290,025 | -351,849 |
| IV. | Other operating income | 8,344,888 | 8,560,021 |
| H. | Other operating expenses | 560,488 | 516,112 |
| ° | Operating profit or loss | -681,587 | -806,227 |
| VI. | Proceeds from the sale of securities and investments | 20,000 | 35,914 |
| J. | Cost of securities and investments sold | 1,320 | 6,240 |
| VII. | Income from non-current financial assets | 10,471 | 3,955 |
| VII.3. | Income from other non-current financial assets | 10,471 | 3,955 |
| X. | Interest income | 17,108 | 10,745 |
| N. | Interest expenses | 123,531 | 20,731 |
| XI. | Other financial income | 465,622 | 470,711 |
| O. | Other financial expenses | 257,842 | 277,915 |
| ° | Financial profit or loss | 130,508 | 216,439 |
| °° | Profit or loss from ordinary activities | -551,079 | -589,788 |
| XIII. | Extraordinary income | 112,655 | 116 |
| R. | Extraordinary expenses | 10,975 | 122 |
| ° | Extraordinary profit or loss | 101,680 | -6 |
| °°° | Profit or loss for the current period (+/-) | -449,399 | -589,794 |
| °°°° | Profit or loss before tax | -449,399 | -589,794 |

STATEMENT OF CHANGES IN EQUITY

| | SHARE CAPITAL | SHARE PREMIUM | OTHER CAPITAL FUNDS | VALUATION GAINS OR LOSSES ON THE REVALUATION OF ASSETS AND LIABILITIES | STATUTORY AND OTHER FUNDS FROM PROFIT | ACCUMULATED LOSSES BROUGHT FORWARD | PROFIT OR LOSS FOR THE CURRENT PERIOD | TOTAL EQUITY |
|--|-------------------|-------------------|---------------------------|---|---|---|--|-------------------|
| ↓ YEAR ENDED 31. 12. 2006 → IN CZK THOUSAND | | | | | | | | |
| Balance at 31 December 2004 | 20,000,000 | 19,500,000 | -444,064 | | 66,144 | -924,867 | -621,272 | 37,575,941 |
| Distribution of profit or loss | | | | | | -621,272 | 621,272 | |
| Creation of the social fund with a charge against share premium | | -327,083 | | | 327,083 | | | |
| Creation of the social fund – other | | | | | 10,858 | | | 10,858 |
| Use of the social fund | | | | | -150,930 | | | -150,930 |
| Revaluation of non-current financial assets | | | | 626,563 | | | | 626,563 |
| Profit or loss for the current period | | | | | | | -589,794 | -589,794 |
| Other | | | -320,932 | | -496 | | | -321,428 |
| Balance at 31 December 2005 | 20,000,000 | 19,172,917 | -764,996 | 626,563 | 252,659 | -1,546,139 | -589,794 | 37,151,210 |
| Settlement of losses for 2003–2005 with a charge against share premium | | -2,135,933 | | | | 1,546,139 | 589,794 | |
| Creation of the social fund with a charge against share premium | | -303,864 | | | 303,864 | | | |
| Creation of the social fund – other | | | | | 18,322 | | | 18,322 |
| Use of the social fund | | | | | -280,540 | | | -280,540 |
| Revaluation of non-current financial assets | | | | 86,379 | | | | 86,379 |
| Profit or loss for the current period | | | | | | | -449,399 | -449,399 |
| Other | | | -79,000 | | | | | -79,000 |
| Balance at 31 December 2006 | 20,000,000 | 16,733,120 | -843,996 | 712,942 | 294,305 | | -449,399 | 36,446,972 |

CASH FLOW STATEMENT

| ↓ | YEAR ENDED 31. 12. 2006 → IN CZK THOUSAND | 2006 | 2005 |
|-------------------------|---|-------------------|-------------------|
| P. | Opening balance of cash and cash equivalents | 1,841,094 | 2,111,980 |
| | Cash flows from ordinary activities | | |
| Z. | Profit or loss from ordinary activities before tax | -551,079 | -589,788 |
| A.1. | Adjustments for non-cash transactions | 1,740,359 | 1,670,422 |
| A.1.1. | Depreciation of fixed assets | 2,549,949 | 2,396,580 |
| A.1.2. | Change in provisions and reserves | -290,025 | -351,849 |
| A.1.3. | Profit/(loss) on the sale of fixed assets | -622,330 | -406,310 |
| A.1.4. | Revenues from dividends and profit shares | -10,471 | -3,955 |
| A.1.5. | Interest expense and interest income | 106,423 | 9,986 |
| A.1.6. | Adjustments for other non-cash transactions | 6,813 | 25,970 |
| A.^o | Net operating cash flow before changes in working capital | 1,189,280 | 1,080,634 |
| A.2. | Change in working capital | 807,058 | 590,253 |
| A.2.1. | Change in operating receivables and other assets | -767,848 | -108,332 |
| A.2.2. | Change in operating payables and other liabilities | 1,474,502 | 792,409 |
| A.2.3. | Change in inventories | 100,404 | -93,824 |
| A.^{oo} | Net cash flow from operations before tax and extraordinary items | 1,996,338 | 1,670,887 |
| A.3. | Interest paid | -92,379 | -20,731 |
| A.4. | Interest received | 17,108 | 10,736 |
| A.6. | Receipts and expenditures relating to extraordinary activities | 101,680 | -6 |
| A.7. | Received dividends and profit shares | 10,471 | 3,955 |
| A.^{ooo} | Net operating cash flows | 2,033,218 | 1,664,841 |
| | Cash flows from investing activities | | |
| B.1. | Fixed assets expenditures | -5,254,945 | -4,980,971 |
| B.2. | Proceeds from fixed assets sold | 1,343,350 | 803,013 |
| B.^{ooo} | Net investment cash flows | -3,911,595 | -4,177,958 |
| | Cash flow from financial activities | | |
| C.1. | Change in payables from financing | 2,341,488 | 2,381,673 |
| C.2. | Impact of changes in equity | -261,755 | -139,442 |
| C.2.3. | Other cash contributions made by partners | 18,785 | 11,488 |
| C.2.5. | Payments from capital funds | -280,540 | -150,930 |
| C.^{ooo} | Net financial cash flows | 2,079,733 | 2,242,231 |
| F. | Net increase or decrease in cash and cash equivalents | 201,356 | -270,886 |
| R. | Closing balance of cash and cash equivalents | 2,042,450 | 1,841,094 |

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1. → GENERAL INFORMATION

1.1. → Background Information

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

The Company's registered office is located at náměstí 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 2006. The reporting period is the calendar year, i.e. from 1 January 2006 to 31 December 2006.

The sole shareholder of the Company is the Czech Republic.

1.2. → Principal Operations

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

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

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

1.3. → Organisational Structure

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

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

1.4. → The Company's Bodies

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

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

The Company's Bodies as of 31 December 2006

| | POSITION | NAME |
|---------------------------|----------|------------------|
| Steering Committee | Chairman | Ondřej Jašek |
| | Member | Vojtěch Kocourek |
| | Member | Pavel Škvára |
| | Member | Jiří Volf |
| | Member | Miroslav Kalous |
| | Member | Petr Polák |
| | Member | Bohumil Haase |

New Composition of the Steering Committee of ČD, a.s. as of 7 March 2007

| | POSITION | NAME |
|---------------------------|---------------|-----------------|
| Steering Committee | Chairman | Petr Šlegl |
| | Vice Chairman | Rudolf Vyčichla |
| | Member | Emanuel Šíp |
| | Member | Miloslav Müller |
| | Member | Miroslav Kalous |
| | Member | Petr Polák |
| | Member | Bohumil Haase |

| | POSITION | NAME |
|---------------------------|----------|----------------|
| Board of Directors | Chairman | Josef Bazala |
| | Member | Petr David |
| | Member | Vladimír Filip |
| | Member | Jiří Kolář |
| | Member | Rodan Šenekl |

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

Composition of the Supervisory Board as of 19 April 2007

| | POSITION | NAME |
|--------------------------|----------|--------------------|
| Supervisory Board | Chairman | Vojtěch Kocourek |
| | Member | Jan Bitter |
| | Member | Jaromír Dušek |
| | Member | František Formánek |
| | Member | Tomáš Chalánek |
| | Member | Miroslav Kapoun |
| | Member | Karel Korytář |
| | Member | Jiří Kratochvíl |
| | Member | František Vašítek |

Changes in the composition of the Supervisory Board in 2007:

On 19 April 2007, the Steering Committee of České dráhy, a.s. recalled members of the Supervisory Board of ČD, a.s. – Messrs František Formánek, Miroslav Kapoun, Karel Korytář and František Vašítek.

With effect from 20 April 2007, the Steering Committee of České dráhy, a.s. elected new members of the Supervisory Board of ČD, a.s.: Messrs Karel Březina, Jan Černožorský, Zdeněk Prosek and Martin Roman.

1.5. → Formation and Incorporation of the Company

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

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

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

2. → ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

The financial statements are prepared and presented in accordance with the Accounting Act 563/1991 Coll., as amended and modified by Acts 117/1994 Coll., 227/1997 Coll., 492/2000 Coll., 353/2001 Coll., 575/2002 Coll., 437/2003 Coll., 257/2004 Coll., 669/2004 Coll., 179/2005 Coll., 495/2005 Coll., 57/2006 Coll., 81/2006 Coll., 230/2006 Coll., 264/2006 Coll., and Regulation 500/2002 Coll., which provides implementation guidance on certain provisions of the Accounting Act 563/1991, as amended, for reporting entities that are businesses maintaining double-entry accounting records, as amended by Regulations 472/2003 Coll. and 397/2005 Coll.; and Czech Accounting Standards for Businesses.

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

These financial statements are presented in thousands of Czech crowns (CZK'000), unless stated otherwise.

3. → SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. → Tangible and Intangible Fixed Assets

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

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

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

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

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

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

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

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

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

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

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

| | NUMBER OF YEARS |
|-------------------------|-----------------|
| Buildings | 30–50 |
| Constructions | 20–50 |
| Locomotives | 20–25 |
| Passenger coaches | 20 |
| Wagons | 25–33 |
| Machinery and equipment | 8–20 |
| Intangible assets | 3–6 |

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

3.2. → Non-Current Financial Assets

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

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

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

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

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

Since 1 January 2005:

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

3.3 → Inventory

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

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

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

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

At the balance sheet date, provisions are made against inventory on the basis of stock taking results. Each type of inventory is assigned a percentage indicating the estimated temporary impairment due to the likelihood of this inventory not being usable for the Company's internal purposes or being disposed of at a price lower than cost.

3.4. → Receivables

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

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

At the balance sheet date, the Company records full provisions against receivables that are past due by greater than six months, receivables registered for recovery under bankruptcy and settlement proceedings and receivables where court proceedings against the relevant debtor have been initiated. Different provisioning levels can be recognised taking into account an individual assessment of receivable balances. The Company does not recognise provisions against receivables from its subsidiaries and SŽDC, s. o.

3.5. → Payables

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

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

3.6. → Loans

Loans are stated at their nominal value.

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

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

3.7. → Equity

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

The change in the value of the assets comprising the contribution between the formation date of the Company and its incorporation date as of 1 January 2003 was reported as a component of other capital funds. As of the incorporation date, pursuant to the Transformation Act, the Company assumed not only the assets that comprised the contribution but also other assets and liabilities. The aggregate net value of these other assets and liabilities was also reported as a component of other capital funds. Given that the aggregate net value of assets and liabilities assumed as of 1 January 2003 was lower than the value of the contribution as of 31 March 2002, the reported balance of other capital funds as of 1 January 2003 and subsequently also as of 31 December 2004 and 31 December 2005 and 31 December 2006 is negative.

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

The statutory and other funds include the balance of the cultural and social needs fund (currently social fund) assumed from the former state organisation Czech Railways reduced to reflect drawings made from 2003 to 2006. In 2005 and 2006, the Company made drawings from the fund and also increased its balance.

3.8. → Reserves

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

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

The reserve for a potential impact of legal disputes is recognised based on an estimate of the anticipated results of the ongoing legal disputes.

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

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

In the year ended 31 December 2006, the Company newly recognised a reserve for bonuses for customers in the freight transportation related to the volume of transportation for the year ended 31 December 2006.

3.9. → Foreign Currency Translation

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

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

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

3.10. → Finance Leases

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

3.11. → Income Taxes

3.11.1. → Current Tax Payable

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

In the year ended 31 December 2006, the Company reports both an accounting and tax loss.

3.11.2. → Deferred Taxation

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

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

3.12. → Impairment

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

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

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

3.13. → Contractual Fines and Default Interest

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

3.14. → Financial Derivatives

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

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

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

Grants to settle public service commitments received from the State budget and regional budgets, the Complementary Social Programme grant, and the grant to settle a provable loss on discounted student fare are included in other operating income.

3.16. → Revenue Recognition

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

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

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

3.17. → Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.18. → Extraordinary Expenses and Income

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly. These expenses and income include, for example, corrections of expenses and income of prior accounting periods, if they are material.

3.19. → Changes in Accounting Estimates

The Company changed the accounting estimate used in provisioning against freight rail vehicles. In the financial statements for the year ended 31 December 2005, the Company estimated the gain from the material acquired in disassembling freight rail vehicles at an average amount of CZK 15,000 and used this amount in arriving at the estimated level of provisions against freight rail vehicles. The amount of the gain was estimated on the basis of the anticipated income decreased by anticipated expenses for the disassembling of freight rail vehicles. In 2006, the Company used the amount of CZK 53,000 in estimating the provisions, as an amount recoverable upon the disposal of the freight rail vehicles for liquidation. This change in the amount for the estimate of provisions resulted from the change in the method of the liquidation of obsolete or redundant freight rail vehicles. In 2006, the Company began to use the services of external companies, thereby decreasing the share of its own expenses in the process of liquidating freight rail vehicles. The related change in estimates resulted in provisions against fixed assets decreasing by CZK 117 million.

3.20 → Changes in Accounting Policies

In the year ended 31 December 2006, the Company did not use any accounting methods different from those adopted in the previous reporting period.

3.21. → Cash Flow Statement

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

| IN CZK THOUSAND | 31 DEC 2006 | 31 DEC 2005 |
|--|------------------|------------------|
| Cash on hand and cash in transit | 104,569 | 83,768 |
| Cash at bank | 1,935,773 | 1,755,218 |
| Short-term securities and investments | 2,108 | 2,108 |
| Total cash and cash equivalents | 2,042,450 | 1,841,094 |

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

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

4.1. → Intangible Fixed Assets

IN CZK THOUSAND

| ACQUISITION COST | BALANCE AT 1 JAN 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2006 |
|--------------------------------------|--------------------------|----------------|---------------|---------------------------|----------------|---------------|---------------------------|
| Research and development | 103,299 | 0 | 702 | 102,597 | 160 | 0 | 102,757 |
| Software | 767,307 | 5,170 | 85,362 | 687,115 | 88,088 | 2,214 | 772,989 |
| Valuable rights | 1,730,302 | 0 | 943 | 1,729,359 | 0 | 0 | 1,729,359 |
| Other assets | 942 | 0 | 0 | 942 | 119 | 0 | 1,061 |
| Intangible assets under construction | 116,635 | 242,059 | 5,170 | 353,524 | 255,847 | 88,367 | 521,004 |
| Total | 2,718,485 | 247,229 | 92,177 | 2,873,537 | 344,214 | 90,581 | 3,127,170 |

IN CZK THOUSAND

| ACCUMULATED AMORTISATION | BALANCE AT 1 JAN 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2006 |
|--------------------------------------|--------------------------|---------------|---------------|---------------------------|---------------|--------------|---------------------------|
| Research and development | 102,545 | 52 | 0 | 102,597 | 53 | 0 | 102,650 |
| Software | 725,969 | 31,564 | 85,362 | 672,171 | 20,829 | 2,214 | 690,786 |
| Valuable rights | 1,730,244 | 59 | 944 | 1,729,359 | 0 | 0 | 1,729,359 |
| Other assets | 942 | 0 | 0 | 942 | 20 | 0 | 962 |
| Intangible assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 2,559,700 | 31,675 | 86,306 | 2,505,069 | 20,902 | 2,214 | 2,523,757 |

IN CZK THOUSAND

| NET BOOK VALUE | BALANCE AT 1 JAN 2005 | BALANCE AT 31 DEC 2005 | BALANCE AT 31 DEC 2006 |
|--------------------------------------|--------------------------|---------------------------|---------------------------|
| Research and development | 754 | 0 | 107 |
| Software | 41,338 | 14,944 | 82,203 |
| Valuable rights | 58 | 0 | 0 |
| Other assets | 0 | 0 | 99 |
| Intangible assets under construction | 116,635 | 353,524 | 521,004 |
| Total | 158,785 | 368,468 | 603,413 |

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

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

The principal additions in 2006 included new SAP modules (CZK 180 million) and the PARIS programme (CZK 22 million).

4.2. → Tangible Fixed Assets

IN CZK THOUSAND

| ACQUISITION COST | BALANCE AT 1 JAN 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2006 |
|---|--------------------------|------------------|------------------|---------------------------|-------------------|-------------------|---------------------------|
| Land | 8,022,699 | 68,937 | 659,258 | 7,432,378 | 30,409 | 270,434 | 7,192,353 |
| Buildings | 21,134,600 | 791,110 | 759,850 | 21,165,860 | 1,165,616 | 279,972 | 22,051,504 |
| Individual movable assets | 50,999,969 | 1,941,952 | 2,350,871 | 50,591,050 | 7,664,957 | 2,281,772 | 55,974,235 |
| – Machinery, equipment, and furniture and fixture | 6,855,348 | 168,469 | 1,196,143 | 5,827,674 | 330,375 | 464,207 | 5,693,842 |
| – Vehicles | 43,822,794 | 1,772,269 | 1,129,472 | 44,465,591 | 7,333,501 | 1,805,182 | 49,993,910 |
| – Other | 321,827 | 1,214 | 25,256 | 297,785 | 1,081 | 12,383 | 286,483 |
| Other assets | 4,350 | 192 | 0 | 4,542 | 0 | 0 | 4,542 |
| Tangible assets under construction | 2,058,057 | 5,422,208 | 2,802,191 | 4,678,074 | 4,997,084 | 8,860,981 | 814,177 |
| Prepayments | 2,440,510 | 1,180,599 | 1,926,272 | 1,694,837 | 831,787 | 882,466 | 1,644,158 |
| Total | 84,660,185 | 9,404,998 | 8,498,442 | 85,566,741 | 14,689,853 | 12,575,625 | 87,680,969 |

IN CZK THOUSAND

| ACCUMULATED DEPRECIATION | BALANCE AT 1 JAN 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2006 |
|---|--------------------------|------------------|------------------|---------------------------|------------------|------------------|---------------------------|
| Buildings | 11,591,971 | 841,110 | 755,850 | 11,677,231 | 427,907 | 177,179 | 11,927,959 |
| Individual movable assets | 34,411,439 | 1,930,887 | 2,136,257 | 34,206,069 | 2,560,245 | 2,181,351 | 34,584,963 |
| – Machinery, equipment, and furniture and fixture | 5,414,393 | 282,669 | 1,068,884 | 4,628,178 | 283,746 | 462,922 | 4,449,002 |
| – Vehicles | 28,804,396 | 1,562,960 | 991,261 | 29,376,095 | 2,223,142 | 1,706,046 | 29,893,191 |
| – Other | 192,650 | 85,258 | 76,112 | 201,796 | 53,357 | 12,383 | 242,770 |
| Other assets | 402 | 6 | 14 | 394 | 8 | 0 | 402 |
| Tangible assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepayments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 46,003,812 | 2,772,003 | 2,892,121 | 45,883,694 | 2,988,160 | 2,358,530 | 46,513,324 |

IN CZK THOUSAND

| PROVISIONS | BALANCE AT 1 JAN 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2005 | ADDITIONS | DISPOSALS | BALANCE AT 31 DEC 2006 |
|---|--------------------------|----------------|----------------|---------------------------|----------------|----------------|---------------------------|
| Land | 7,420 | 4,526 | 7,420 | 4,526 | 3,277 | 4,526 | 3,277 |
| Buildings | 134,225 | 82,756 | 134,225 | 82,756 | 70,702 | 82,756 | 70,702 |
| Individual movable assets | 783,117 | 533,283 | 783,117 | 533,283 | 304,462 | 533,283 | 304,462 |
| – Machinery, equipment, and furniture and fixture | 3,304 | 5,983 | 3,304 | 5,983 | 2,887 | 5,983 | 2,887 |
| – Vehicles | 779,813 | 527,300 | 779,813 | 527,300 | 301,575 | 527,300 | 301,575 |
| – Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 8 | 0 | 0 | 8 | 0 | 8 | 0 |
| Tangible assets under construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Prepayments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 924,770 | 620,565 | 924,762 | 620,573 | 378,441 | 620,573 | 378,441 |

| IN CZK THOUSAND | | | |
|---|-------------------|-------------------|-------------------|
| NET BOOK VALUE | BALANCE | BALANCE | BALANCE |
| | AT 1 JAN 2005 | AT 31 DEC 2005 | AT 31 DEC 2006 |
| Land | 8,015,279 | 7,427,852 | 7,189,076 |
| Buildings | 9,408,404 | 9,405,873 | 10,052,843 |
| Individual movable assets | 15,805,413 | 15,851,698 | 21,084,810 |
| – Machinery, equipment, and furniture and fixture | 1,437,651 | 1,193,513 | 1,241,953 |
| – Vehicles | 14,238,585 | 14,562,196 | 19,799,144 |
| – Other | 129,177 | 95,989 | 43,713 |
| Other assets | 3,940 | 4,140 | 4,140 |
| Tangible assets under construction | 2,058,057 | 4,678,074 | 814,177 |
| Prepayments | 2,440,510 | 1,694,837 | 1,644,158 |
| Total | 37,731,603 | 39,062,474 | 40,789,204 |

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). As disclosed in Note 3.19, 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.

The most significant items of prepayments for tangible fixed assets include the amount of CZK 802,210 thousand comprising prepayments for the acquisition of the Ampz and Bmz passenger coaches (first and second class wagons) and the amount of CZK 617,586 thousand including prepayments for the acquisition of the 380 series electrical three-system locomotives.

The most significant disposals of tangible assets included the disposal of passenger coaches at the net book value of CZK 127,724 thousand and wagons at the net book value of CZK 330,761 thousand through the sale for lease-back to ING Lease (C.R.), s.r.o. In addition, freight rail vehicles at the net book value of CZK 49,467 thousand were sold to Čechofracht. Another significant disposal included the disposal of buildings and plots of land as a result of the sale of these assets to SŽDC as part of the settlement of property relations at the net book value of CZK 90,783 thousand.

The most significant additions to tangible fixed assets included train sets of the 471 series in the amount of CZK 1,365,112 thousand and train sets of the 680 series (Pendolino) in the amount of CZK 4,625,791 thousand put into use.

4.2.1. → Pledged Assets

The Company holds assets that were pledged as security – train sets of the 471 series at an acquisition cost of CZK 1,234,625 thousand.

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

The aggregate amount of tangible fixed assets not reported on the face of the balance sheet as of 31 December 2006 was CZK 1,635 million (31 December 2005: CZK 1,435 million). These include items worth less than CZK 10,000 that are recorded only in the underlying operating records. These items are recognised in expenses at the moment of acquisition in accordance with applicable legislation.

4.2.3. → Investment Grants

Investment grants received in the year ended 31 December 2006 amounted to CZK 455,212 thousand, of which the grants from the State Fund of Transport Infrastructure amounted to CZK 218,271 thousand and CZK 443,864 thousand in the years ended 31 December 2006 and 2005, respectively.

4.2.4. → Assets Held under Finance Leases

IN CZK THOUSAND

| | DATE OF INCEPTION | TERMS IN MONTHS | TOTAL LEASE VALUE | PAYMENTS MADE IN 2005 | PAYMENTS MADE IN 2006 | DUE IN 2007 | DUE IN THE FOLLOWING YEARS |
|----------------------------------|----------------------|--------------------|-------------------------|-----------------------------|-----------------------------|----------------|----------------------------------|
| AU analyser | June 2003 | 36 | 2,095 | 1,163 | 698 | 234 | 0 |
| Freight rail vehicles | | | | | | | |
| – Sggmrss vehicles | Oct 2005 | 96 | 145,613 | 4,396 | 18,202 | 18,202 | 104,813 |
| – Tadmss & Tadmss vehicles | April 2006 | 96 | 294,719 | 0 | 17,024 | 36,747 | 240,948 |
| – Habbillnss vehicles | Dec 2005 | 96 | 866,711 | 0 | 82,770 | 107,212 | 676,729 |
| – Zacns vehicles | April 2006 | 96 | 81,276 | 0 | 6,209 | 10,160 | 64,907 |
| – Sgnss vehicles | Dec 2006 | 123 | 418,263 | 0 | 0 | 31,369 | 386,894 |
| Motor vehicles of the 854 series | Jan 2006 | 126 | 311,176 | 0 | 12,966 | 31,117 | 267,093 |
| Locomotives of the 709 series | Dec 2006 | 120 | 58,940 | 0 | 0 | 5,895 | 53,045 |
| | | | 2,178,793 | 5,559 | 137,869 | 240,936 | 1,794,429 |

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

4.3. → Non-Current Financial Assets

4.3.1. → Equity Investments in Subsidiaries

AS OF 31 DECEMBER 2006 → IN CZK THOUSAND

| BUSINESS NAME OF THE ENTITY | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT OR LOSS 2006 | VALUATION AT 31 DEC 2006 |
|------------------------------------|------------------------------|------------------|----------------|----------------------|-----------|---------------------|--------------------------|
| RAILREKLAM, spol. s r.o. | Prague 1, Klimentská 36/1652 | 29,250 | 10,003 | 100% | 39,253 | 4,095 | 39,253 |
| RailReal a.s. | Prague 3, Olšanská 1a | 660 | -115 | 66% | 826 | -834 | 545 |
| ČD Reality a.s. | Prague 1, Hybernská 1034/5 | 1,020 | 291 | 51% | 2,571 | 856 | 1,311 |
| ČD Generalvertretung GmbH | Frankfurt am/M, Germany | 1,592 | -142 | 100% | 2,987 | *) | 1,364 |
| Dopravní vzdělávací institut, a.s. | Prague 1, Hybernská 1014/13 | 3,200 | 2,754 | 100% | 5,954 | 1,955 | 5,954 |
| Smíchov Station Development, a.s. | Prague 8, Ke Štvanici 655/1 | 1,020 | -978 | 51% | 82 | -1,185 | 42 |
| ČD travel, s.r.o. | Prague 1, Hybernská 1034 | 7,500 | -262 | 100% | 7,238 | 70 | 7,238 |
| Traťová strojní společnost, a.s. | Pardubice, Hlaváčova 206 | 287,483 | 76,415 | 51% | 713,526 | 42,547 | 363,898 |
| Výzkumný Ústav Železniční, a.s. | Prague 4, Novodvorská 1698 | 330,414 | 45,593 | 100% | 376,007 | 5,846 | 376,007 |
| ČD-Telematika a.s. | Prague 3, Pernerova 2a/2819 | 673,152 | 487,067 | 51% | 2,274,939 | 25,088 | 1,160,219 |
| RAILLEX, a.s. | Prague 1, Hybernská 1014/13 | 1,020 | -15 | 51% | 1,970 | -30 | 1,005 |
| Koleje Czeskie Sp. z o.o. | Hoza 63/67, Warszawa, Poland | 761 | 0 | 100% | 761 | 0 | 761 |
| Total | | 1,337,072 | 620,611 | | | | 1,957,597 |

*) The figure is not available.

AS OF 31 DECEMBER 2005 → IN CZK THOUSAND

| BUSINESS NAME OF THE ENTITY | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT OR LOSS 2005 | VALUATION AT 31 DEC 2005 |
|------------------------------------|-------------------------------|------------------|----------------|----------------------|-----------|---------------------|--------------------------|
| RAILREKLAM, spol. s r.o. | Prague 1, Klimentská 36/1652 | 29,250 | 6,761 | 100% | 36,011 | 4,239 | 36,011 |
| RailReal a.s. | Prague 3, Olšanská 1a | 660 | 442 | 66% | 1,669 | -439 | 1,102 |
| ČD Reality a.s. | Prague 3, Prvního pluku 2a/81 | 1,020 | -145 | 51% | 1,715 | 47 | 875 |
| ČD Generalvertretung GmbH | Frankfurt am/M, Germany | 1,592 | -142 | 100% | 2,721 | 2,919 | 1,450 |
| Dopravní vzdělávací institut, a.s. | Prague 1, Hybernská 1014/13 | 3,200 | 932 | 100% | 4,132 | 932 | 4,132 |
| Smíchov Station Development, a.s. | Prague 1, Revoluční 655/1 | 1,020 | -302 | 51% | 1,267 | -733 | 718 |
| ČD travel, s.r.o. | Prague 1, Hybernská 1034 | 7,500 | -332 | 100% | 7,168 | -332 | 7,168 |
| Traťová strojní společnost, a.s. | Pardubice, Hlaváčova 206 | 287,483 | 97,618 | 100% | 385,101 | 20,364 | 385,101 |
| Výzkumný Ústav Železniční, a.s. | Prague 4, Novodvorská 1698 | 329,300 | 43,494 | 100% | 370,451 | 4,941 | 372,794 |
| ČD-Telematika a.s. | Prague 3, Pernerova 2a/2819 | 673,152 | 474,589 | 51% | 2,250,475 | 18,810 | 1,147,741 |
| Total | | 1,334,177 | 622,915 | | | | 1,957,092 |

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. On 6 February 2004, RAILREKLAM, spol. s r.o. increased its share capital to CZK 13.5 million. RAILREKLAM, spol. s r.o. is engaged in advertising activities specifically related to railway 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 investment construction.

ČD-Telematika a.s., principal activities – provision of telecommunication services, software and advisory, assembly, maintenance, and servicing. ČD, a.s. increased its equity investment in ČD-Telematika a.s. from 40 percent to 51 percent by an investment of the part of the business, it was registered in the Register of Companies on 4 May 2005. The General Meeting of ČD-Telematika a.s. held on 28 June 2006 decided to decrease the share capital by CZK 332,644 thousand by a withdrawal of shares from circulation for consideration. This decrease in the share capital was not registered in the Register of Companies as of 31 December 2006. It was recorded in the Register of Companies on 13 February 2007 and the equity investment of ČD, a.s. in the entity increased to 59.31 percent.

ČD Reality a.s. was incorporated following the registration in the Register of Companies on 16 November 2004. The entity is engaged in investment construction engineering activities, preparation and implementation of revitalisation projects and other related activities.

ČD Generalvertretung GmbH was incorporated following the registration in the Register of Companies on 11 October 2004. The entity is engaged in the representation of the Company in its business and other interests abroad, predominantly conclusion and mediation of contracts relating to freight transport.

Traťová strojní společnost, a.s., registered in the Register of Companies on 1 January 2005, principal activities: maintenance and repair of track superstructure, operation, repairs and renovation of railway machines. The company was formed by an investment of part of the business of České dráhy, a.s. On 15 December 2005, the Contract for the Investment of OHL ŽS, a.s. (former ŽS Brno) in Traťová strojní společnost was entered into. The investment decreased the shareholding of České dráhy from 100 percent to 51 percent. The increased share capital was recorded in the Register of Companies on 15 February 2006.

Výzkumný Ústav Železniční, a.s., registered in the Register of Companies on 1 July 2005, principal activities: testing engineering, research and development of rail vehicles and infrastructure equipment. The company was formed by an investment of part of the business of České dráhy, a.s.

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

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

On 10 October 2006, České dráhy, a.s., as the sole owner of ČD travel, s.r.o. approved the increase in the share capital of the company of CZK 7 million through a cash contribution by OSŽ which became a new owner of ČD travel, s.r.o. The transaction was recorded in the Register of Companies on 8 March 2007. As of that date, the equity investment of České dráhy, a.s. in ČD travel decreased to 51.7 percent.

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

In the year ended 31 December 2006, the number of subsidiaries increased by two to a total of twelve companies as compared to the year ended 31 December 2005. The new entities are as follows:

- RAILLEX, a.s., registered in the Register of Companies on 17 June 2006, principal activities – storage of goods and freight handling; and
- Koleje Czeskie Sp. z o.o., registered in the Register of Companies on 18 December 2006. The company is engaged in the representation of business and other interests of ČD, a.s. abroad, predominantly conclusion and mediation of contracts relating to freight transport.

4.3.2. → Equity Investments in Associates

AS OF 31 DECEMBER 2006 → IN CZK THOUSAND

| BUSINESS NAME OF THE ENTITY | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT OR LOSS 2006 | VALUATION AT 31 DEC 2006 |
|-----------------------------------|---------------------------|---------------|---------------|-------------------------|---------|------------------------|-----------------------------|
| CR-City a.s. | Prague 3, Olšanská 1a | 680 | 247 | 34% | 2,727 | 2,391 | 927 |
| BOHEMIAKOMBI, spol. s r.o. | Prague 1, Opletalova 6 | 822 | 3,701 | 20% | 22,612 | -5,796 | 4,522 |
| Masaryk Station Development, a.s. | Prague 3, Olšanská 1a | 680 | -759 | 34% | -231 | -330 | 0 |
| Jídelní a lůžkové vozy, a.s. | Prague 4, Chodovská 3/228 | 20,000 | 89,150 | 38.79% | 281,386 | 12,227 | 109,150 |
| Total | | 22,182 | 92,339 | | | | 114,599 |

AS OF 31 DECEMBER 2005 → IN CZK THOUSAND

| BUSINESS NAME OF THE ENTITY | REGISTERED OFFICE | COST | REVALUATION | OWNERSHIP PERCENTAGE | EQUITY | PROFIT OR LOSS 2005 | VALUATION AT 31 DEC 2005 |
|-----------------------------------|------------------------|--------------|--------------|-------------------------|--------|------------------------|-----------------------------|
| CR-City a.s. | Prague 3, Olšanská 1a | 680 | -566 | 34% | 336 | -263 | 114 |
| BOHEMIAKOMBI, spol. s r.o. | Prague 1, Opletalova 6 | 822 | 4,860 | 20% | 28,408 | -1,859 | 5,682 |
| Masaryk Station Development, a.s. | Prague 3, Olšanská 1a | 680 | -647 | 34% | 99 | -1,713 | 33 |
| Total | | 2,182 | 3,647 | | | | 5,829 |

4.3.3. → Other Equity Investments and Securities

IN CZK THOUSAND

| TYPE OF SECURITY AND INVESTMENT | 31 DEC 2006 | 31 DEC 2005 |
|-------------------------------------|----------------|----------------|
| PRaK, a.s. | 850 | 850 |
| STROJEXPORT a.s. | 2,300 | 2,300 |
| Hit Rail B.V. | 4,017 | 4,017 |
| EUROFIMA | 262,873 | 262,873 |
| INTERCONTAINER-INTERFRIGO, o. s. | 5,189 | 5,189 |
| INTERNATIONALE SPEDITION DĚČÍN a.s. | 8 | 8 |
| Total | 275,237 | 275,237 |

4.4. → Inventory

IN CZK THOUSAND

| | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|---|------------------------|------------------------|
| Spare parts for machinery and equipment | 349,415 | 377,908 |
| Spare parts and other components for rail vehicles and locomotives | 523,984 | 500,505 |
| Other spare parts and other minor components | 223,086 | 234,083 |
| Fuels and other oil products | 19,250 | 35,875 |
| Switches, turntables, traverse tables and components for rail superstructures | 145,642 | 168,296 |
| Work clothes, work shoes, protective devices | 311,979 | 282,386 |
| Other | 279,407 | 354,115 |
| Total cost | 1,852,763 | 1,953,168 |
| Provisions | 23,794 | 53,498 |
| Total net book value | 1,828,969 | 1,899,670 |

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 2006 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.

The inventories required for use in the long-term within the entire company are gathered in the Supply Centre in Česká Třebová.

4.5 → Short-Term Receivables**4.5.1. → Trade Receivables**

IN CZK THOUSAND

| YEAR | CATEGORY | BEFORE DUE DATE | PAST DUE (IN DAYS) | | | | | TOTAL | TOTAL |
|------|------------|-----------------|--------------------|---------|---------|---------|-----------------|----------|------------------|
| | | | 0-90 | 91-180 | 181-365 | 366-730 | 731 AND GREATER | | |
| 2006 | Gross | 2,952,440 | 233,280 | 18,841 | 32,719 | 31,816 | 30,627 | 347,283 | 3,299,723 |
| | Provisions | 0 | 0 | 0 | -26,018 | -31,816 | -30,627 | -88,461 | -88,461 |
| | Net | 2,952,440 | 233,280 | 18,841 | 6,701 | 0 | 0 | 258,822 | 3,211,262 |
| 2005 | Gross | 2,544,110 | 216,789 | 229,798 | 18,965 | 24,008 | 13,668 | 503,228 | 3,047,338 |
| | Provisions | 0 | 0 | -57,112 | -18,965 | -24,008 | -13,668 | -113,753 | -113,753 |
| | Net | 2,544,110 | 216,789 | 172,686 | 0 | 0 | 0 | 389,475 | 2,933,585 |

4.5.2 → Intercompany Receivables

| IN CZK THOUSAND | | |
|---|------------------------|------------------------|
| ENTITY | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
| Short-term receivables | | |
| – Trade receivables | | |
| ČD-Telematika a.s. | 11,509 | 9,992 |
| Traťová strojní společnost, a.s. | 27,183 | 6,806 |
| Výzkumný Ústav Železniční, a.s. | 997 | 2,596 |
| Jídelní a lůžkové vozy, a.s. | 627 | 1,317 |
| Total short-term intercompany receivables* | 40,316 | 20,711 |
| Other than intercompany receivables | 3,259,407 | 3,026,627 |
| Total short-term intercompany receivables – gross | 3,299,723 | 3,047,338 |
| Provision against receivables | 88,461 | 113,753 |
| Total short-term trade receivables – net | 3,211,262 | 2,933,585 |

* Receivables from other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany receivables.

4.5.3. → Tax Receivables

As of 31 December 2006 and 2005, tax receivables amounted to CZK 92,249 thousand and CZK 14,222 thousand, respectively, and largely consisted of receivables arising from VAT.

4.5.4. → Prepayments Made

As of 31 December 2006 and 2005, short-term prepayments made amounted to CZK 325,368 thousand and CZK 233,498 thousand, respectively, and largely consisted of prepayments made for the supply of services (electricity, heat, etc).

4.6. → Estimated Receivables

| IN CZK THOUSAND | | |
|--|------------------------|------------------------|
| | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
| Cross-border rentals for passenger coaches | 466,023 | 552,308 |
| Cross-border rentals for freight wagons | 229,473 | 224,000 |
| Income from international transportation | 645,138 | 432,981 |
| Other | 212,773 | 48,690 |
| Total estimated receivables | 1,553,407 | 1,257,979 |

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 2006 which were not billed to the foreign railway organisations and an amount receivable arising from unsettled operating output in border regions in respect of the neighbouring railway organisations. This receivable is typically settled with a delay of one or more months.

4.7. → Equity

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

Information about the substance of individual equity components is presented in Note 3.7 to the financial statements.

The revaluation of the non-current financial assets using the equity method of accounting amounted to CZK 712,942 thousand.

The increase in statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 322,187 thousand of which CZK 303,864 thousand is charged against the share premium, other allocations to the social fund of CZK 18,323 thousand include repayments of loans by employees. The amount of CZK 303,864 thousand represents 2 percent of the annual expenses recognised for salaries and compensation for salaries for the year ended 31 December 2005. Until 31 December 2006, CZK 280,540 thousand was drawn from the social fund.

The General Meeting decided to charge the loss for 2005 of CZK 589,794 thousand against share premium in compliance with Article 52 (4) (b) of the Company's Articles of Association.

The General Meeting decided to charge the loss for 2003 and 2004 of CZK 1,546,139 thousand against share premium in compliance with Article 52 (4) (b) of the Company's Articles of Association.

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

4.8. → Reserves

IN CZK THOUSAND

| | BALANCE AT 1 JAN 2005 | CHARGE | USE | BALANCE AT 31 DEC 2005 | CHARGE | USE | BALANCE AT 31 DEC 2006 |
|---------------------------------------|--------------------------|----------------|----------------|---------------------------|----------------|----------------|---------------------------|
| Reserve for claims | 35,197 | 29,437 | 35,197 | 29,437 | 28,155 | 29,437 | 28,155 |
| Reserve for rents | 15,477 | 16,271 | 15,477 | 16,271 | 13,906 | 16,271 | 13,906 |
| Reserve for legal disputes | 0 | 9,290 | 0 | 9,290 | 10,107 | 9,290 | 10,107 |
| Reserve for outstanding vacation days | 132,982 | 75,443 | 132,982 | 75,443 | 46,450 | 75,443 | 46,450 |
| Reserve for bonuses | 0 | 0 | 0 | 0 | 37,680 | 0 | 37,680 |
| Total reserves | 183,656 | 130,441 | 183,656 | 130,441 | 136,298 | 130,441 | 136,298 |

The significant reduction of the reserve for outstanding vacation days in 2006 is due to the increased use of vacation days by employees of the Company and the reduction of the number of employees.

In 2006, the Company newly created a reserve for bonuses for customers of freight transportation which relates to contracts entered into for 2006.

All of the reserves charged in the year ended 31 December 2006 are non-tax deductible.

4.9. → Long-Term Payables

IN CZK THOUSAND

| | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|-------------------------------------|------------------------|------------------------|
| Payable to EUROFIMA | 3,711,770 | 3,045,467 |
| Payable to the City of Karlovy Vary | 44,338 | 44,338 |
| Long-term received prepayments | 255,274 | 534 |
| Long-term supplier payables | 438,074 | 0 |
| Total long-term payables | 4,449,456 | 3,090,339 |

In 2004, the Company received a long-term loan from EUROFIMA to finance the purchase of rail vehicles. This loan was increased in the year ended 31 December 2006 by EUR 30 million. This loan is collateralised by a state guarantee. A portion of the long-term payables represents the Company's payable to the City of Karlovy Vary in connection with the construction of the bus and train station in Karlovy Vary.

Long-term supplier payables include payables to suppliers arising from the repairs of freight rail vehicles.

The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2006 and 2005 was CZK 42,827 thousand and CZK 19,371 thousand, respectively.

4.10. → Short-Term Payables**4.10.1. → Trade Payables**

IN CZK THOUSAND

| YEAR | CATEGORY | BEFORE DUE DATE | PAST DUE (IN DAYS) | | | | | TOTAL | TOTAL |
|------|------------|-----------------|--------------------|--------|---------|---------|-----------------|---------|------------------|
| | | | 0-90 | 91-180 | 181-365 | 366-730 | 731 AND GREATER | | |
| 2006 | Short-term | 4,898,118 | 272,445 | 3,087 | 2,573 | 22,854 | 1,858 | 302,817 | 5,200,935 |
| 2005 | Short-term | 3,488,279 | 320,251 | 15,385 | 5,633 | 12,623 | 297 | 354,189 | 3,842,468 |

4.10.2. → Intercompany Payables

IN CZK THOUSAND

| ENTITY | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|--|------------------------|------------------------|
| Short-term payables | | |
| – Trade payables | | |
| ČD-Telematika a.s. | 332,137 | 218,523 |
| Traťová strojní společnost, a.s. | 11,684 | 21,411 |
| Výzkumný Ústav Železniční, a.s. | 3,664 | 1,487 |
| Jídelní a lůžkové vozy, a.s. | 5,812 | 2,104 |
| Total short-term intercompany payables* | 353,297 | 243,525 |
| Other than intercompany payables | 4,847,638 | 3,598,943 |
| Total short-term trade payables | 5,200,935 | 3,842,468 |

* Payables to other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany payables.

4.10.3. → Payables from Outstanding Contributions

As of 31 December 2005, the Company recorded in the balance sheet line item 'Payables to partners' an amount payable of CZK 67,140 thousand arising from an outstanding part of the contribution to ČD-Telematika, a.s. As of 31 December 2006, the payable was settled.

4.10.4. → Tax Payables and Subsidies

As of 31 December 2006, tax payables were largely composed of personal income taxation deducted from the gross wages of the Company's employees amounting to CZK 147,256 thousand (31 December 2005: CZK 173,196 thousand) and an outstanding amount of the investment subsidy received by the Company from municipalities of CZK 4,310 thousand (31 December 2005: CZK 43,642 thousand).

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

4.10.5. → Prepayments Received

As of 31 December 2006, short-term prepayments received amounted to CZK 426,543 thousand (31 December 2005: CZK 336,615 thousand) and were largely composed of rental prepayments.

4.11. → Estimated Payables

IN CZK THOUSAND

| | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|---|------------------------|------------------------|
| Rental for passenger coaches of foreign companies in the Czech Republic | 435,493 | 514,825 |
| Rental for freight wagons of foreign companies in the Czech Republic | 102,904 | 105,000 |
| Costs of international transportation | 455,027 | 190,483 |
| Other | 292,431 | 365,034 |
| Total estimated payables | 1,285,855 | 1,175,342 |

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

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

4.12. → Bank Loans

Long-term Bank Loans

IN CZK THOUSAND

| BANK | CURRENCY | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 | INTEREST RATE | COLLATERAL FORM |
|--------------|----------|------------------------|------------------------|------------------|-----------------|
| ČSOB | EUR | 1,972,248 | 1,422,839 | 3M EURIBOR + 0,5 | State guarantee |
| Total | | 1,972,248 | 1,422,839 | | |

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 loan has been provided to finance the renovation of the Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. As of 31 December 2006, the whole loan facility of EUR 92,065 was drawn. As of 31 December 2005, EUR 61,376 thousand was drawn (a one-off draw-down on 25 November 2005). The Company began repaying the loan principal in 2005

(repayments on 25 May 2005 and 25 November 2005, each of EUR 1,315 thousand). The final maturity date of the loan is 25 November 2014.

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

Short-Term Bank Loans

As of 31 December 2006, the portion of long-term bank loans maturing within one year from the balance sheet amounts to CZK 281,749 thousand.

As of 31 December 2005, the portion of bank loans maturing within one year from the balance sheet amounted to CZK 281,088 thousand. The Company records the draw-down of an overdraft loan facility amounting to CZK 693,850 thousand and CZK 261,551 thousand as of 31 December 2006 and 2005, respectively, as a short-term bank loan.

The amount of capitalised interest on the loan from ČSOB for the year ended 31 December 2006 was CZK 21,817 thousand. Other interest on the loan from ČSOB in the amount of CZK 37 million is reported as interest expenses of the current period after train sets of the 680 series (Pendolino) were put into use.

The amount of capitalised interest on the loan from ČSOB for the year ended 31 December 2005 was CZK 26,838 thousand.

4.13. → Income Taxes

4.13.1. → Tax Payable

The Company has been reporting tax losses since its incorporation on 1 January 2003. The tax loss amounted to CZK 2,243,883 thousand, CZK 2,865,152 thousand and CZK 2,872,030 thousand for the years ended 31 December 2006, 2005 and 2004, respectively (changes in the tax loss for 2004 and 2005 as compared to the disclosures provided in the notes to the financial statements for individual years were due to additional tax returns filed during the following years). The difference between the accounting loss and the tax base was predominantly due to the difference between depreciation for accounting and tax purposes.

4.13.2. → Deferred Taxation

The Company has determined a deferred tax asset as follows:

IN CZK THOUSAND

| | BALANCE AT 31 DEC 2006 | BALANCE AT 31 DEC 2005 |
|--------------------------------------|------------------------|------------------------|
| Tangible and intangible fixed assets | -1,390,023 | -959,288 |
| Non-current financial assets | 0 | 0 |
| Trade receivables | 8,418 | 23,352 |
| Inventory | 5,721 | 12,839 |
| Reserves | 19,249 | 31,306 |
| Unpaid contractual fines | -30,954 | -23,623 |
| Unpaid supplier contractual fines | 134 | 23,544 |
| Revaluation of financial investments | -171,106 | -150,375 |
| Accumulated tax loss | 2,226,540 | 1,657,745 |
| Total deferred tax asset | 667,979 | 615,500 |

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 2006.

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

4.15. Income from the Sale of the Company's Products and Services

IN CZK THOUSAND

| | YEAR ENDED 31 DECEMBER 2006 | | | YEAR ENDED 31 DECEMBER 2005 | | |
|--|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|-------------------|
| | IN-COUNTRY | CROSS-BORDER | TOTAL | IN-COUNTRY | CROSS-BORDER | TOTAL |
| Income from freight transportation | 5,915,311 | 11,337,074 | 17,252,385 | 5,575,471 | 10,903,974 | 16,479,445 |
| Income from passenger transportation | 4,198,558 | 1,714,440 | 5,912,998 | 3,918,749 | 1,519,423 | 5,438,172 |
| Income from other transportation | 63,000 | 0 | 63,000 | 20,346 | 0 | 20,346 |
| Income from securing railway routes | 11,479,422 | 0 | 11,479,422 | 11,243,979 | 0 | 11,243,979 |
| Income from securing modernisation and development of railway routes | 0 | 0 | 0 | 34,817 | 0 | 34,817 |
| Income from other services | 1,947,938 | 0 | 1,947,938 | 1,684,521 | 0 | 1,684,521 |
| Income from the sale of the Company's products and services | 23,604,229 | 13,051,514 | 36,655,743 | 22,477,883 | 12,423,397 | 34,901,280 |

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

Income from securing railway routes principally represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 4,699,422 thousand (2005: CZK 4,488,040 thousand) and operability of CZK 6,780,000 thousand (2005: CZK 6,755,939 thousand). A description of the transactions between the Company and SŽDC is provided in Note 7.2.

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

4.16. → Related Parties Transactions

4.16.1. → Income Generated with Related Parties*

2006

IN CZK THOUSAND

| ENTITY | RELATION TO THE COMPANY | MATERIAL | SERVICES | OTHER INCOME | TOTAL |
|----------------------------------|-------------------------|---------------|----------------|--------------|----------------|
| ČD-Telematika a.s. | Subsidiary | 61 | 36,620 | 630 | 37,311 |
| Traťová strojní společnost, a.s. | Subsidiary | 39,083 | 43,347 | 104 | 82,534 |
| Výzkumný Ústav Železniční, a.s. | Subsidiary | 47 | 11,919 | 6 | 11,972 |
| Jídelní a lůžkové vozy, a.s. | Associate | 0 | 22,917 | 0 | 22,917 |
| Total | | 39,191 | 114,803 | 740 | 154,734 |

2005

IN CZK THOUSAND

| ENTITY | RELATION TO THE COMPANY | MATERIAL | SERVICES | OTHER INCOME | CELKEM |
|----------------------------------|-------------------------|---------------|---------------|--------------|----------------|
| ČD-Telematika a.s. | Subsidiary | 45 | 27,147 | 1,863 | 29,055 |
| Traťová strojná společnost, a.s. | Subsidiary | 26,750 | 24,286 | 473 | 51,509 |
| Výzkumný Ústav Železniční, a.s. | Subsidiary | 13 | 4,025 | 123 | 4,161 |
| Jídelní a lůžkové vozy, a.s. | Associate | 0 | 22,004 | 0 | 22,004 |
| Total | | 26,808 | 77,462 | 2,459 | 106,729 |

*Income from other related parties, except the above noted, were deemed immaterial and were not disclosed.

4.16.2. → Purchases from Related Parties^{*)}

2006

IN CZK THOUSAND

| ENTITY | RELATION TO THE COMPANY | PURCHASE OF MATERIAL | SERVICES | OTHER INCOME | CELKEM |
|----------------------------------|-------------------------|----------------------|----------------|--------------|----------------|
| ČD-Telematika a.s. | Subsidiary | 51,628 | 728,252 | 19 | 779,899 |
| Traťová strojná společnost, a.s. | Subsidiary | 411 | 40,331 | 0 | 40,742 |
| Výzkumný Ústav Železniční, a.s. | Subsidiary | 0 | 4,795 | 0 | 4,795 |
| Jídelní a lůžkové vozy, a.s. | Associate | 4,040 | 123,109 | 117 | 127,266 |
| Total | | 56,079 | 896,487 | 136 | 952,702 |

2005

IN CZK THOUSAND

| ENTITY | RELATION TO THE COMPANY | PURCHASE OF MATERIAL | SERVICES | OTHER INCOME | CELKEM |
|----------------------------------|-------------------------|----------------------|----------------|--------------|----------------|
| ČD-Telematika a.s. | Subsidiary | 17,238 | 569,059 | 0 | 586,297 |
| Traťová strojná společnost, a.s. | Subsidiary | 386 | 55,635 | 0 | 56,021 |
| Výzkumný Ústav Železniční, a.s. | Subsidiary | 0 | 4,245 | 0 | 4,245 |
| Jídelní a lůžkové vozy, a.s. | Associate | 502 | 102,516 | 188 | 103,206 |
| Total | | 18,126 | 731,455 | 188 | 749,769 |

*) Purchases from other related parties, except for the above noted, are deemed immaterial and were not disclosed.

4.16.3. → Purchases and Sales of Fixed Assets and Financial Assets with Related Parties^{*)}

Sales in 2006

IN CZK THOUSAND

| ENTITY | RELATION TO THE COMPANY | INTANGIBLE FIXED ASSETS | TANGIBLE FIXED ASSETS |
|----------------------------------|-------------------------|-------------------------|-----------------------|
| ČD-Telematika a.s. | Subsidiary | 0 | 957 |
| Traťová strojní společnost, a.s. | Subsidiary | 0 | 66,659 |
| Výzkumný Ústav Železniční, a.s. | Subsidiary | 0 | 243 |
| Jídelní a lůžkové vozy, a.s. | Associate | 0 | 0 |
| Total | | 0 | 67,859 |

Sales of fixed assets and financial assets with related parties were immaterial in the year ended 31 December 2005.

Purchases in 2006

IN CZK THOUSAND

| ENTITY | RELATION TO THE COMPANY | INTANGIBLE FIXED ASSETS | TANGIBLE FIXED ASSETS |
|----------------------------------|-------------------------|-------------------------|-----------------------|
| ČD-Telematika a.s. | Subsidiary | 139,306 | 19,168 |
| Traťová strojní společnost, a.s. | Subsidiary | 0 | 7,728 |
| Výzkumný Ústav Železniční, a.s. | Subsidiary | 0 | 13,923 |
| Jídelní a lůžkové vozy, a.s. | Associate | 0 | 381 |
| Total | | 139,306 | 41,200 |

Purchases in 2005

IN CZK THOUSAND

| ENTITY | RELATION TO THE COMPANY | INTANGIBLE FIXED ASSETS | TANGIBLE FIXED ASSETS |
|----------------------------------|-------------------------|-------------------------|-----------------------|
| ČD-Telematika a.s. | Subsidiary | 159,981 | 11,919 |
| Traťová strojní společnost, a.s. | Subsidiary | 0 | 8,901 |
| Výzkumný Ústav Železniční, a.s. | Subsidiary | 0 | 490 |
| Jídelní a lůžkové vozy, a.s. | Associate | 0 | 1,100 |
| Total | | 159,981 | 22,410 |

^{*)} Sales and purchases of fixed assets and financial assets with related parties, except for the above noted, were deemed immaterial and were not disclosed.

4.17. → Consumed Purchases

IN CZK THOUSAND

| | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---------------------------------|------------------------|------------------------|
| Consumed material | 2,345,204 | 2,216,610 |
| Consumed energy | 2,862,406 | 2,617,442 |
| Consumption of fuels | 2,173,572 | 2,138,859 |
| Total consumed purchases | 7,381,182 | 6,972,911 |

4.18. → Services

IN CZK THOUSAND

| | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---|------------------------|------------------------|
| Repairs and maintenance | 4,183,427 | 3,722,721 |
| Travel expenses | 248,774 | 256,816 |
| Telecommunications, data and postal services | 756,258 | 537,844 |
| Other rental | 99,270 | 79,901 |
| Use of railway routes, management of operations | 6,034,724 | 5,695,136 |
| Rent for railway coaches and wagons | 1,124,204 | 1,145,050 |
| Freight charges | 398,265 | 247,254 |
| Services of dining and sleeping carriages | 149,876 | 138,016 |
| Services associated with the use of buildings | 247,786 | 223,604 |
| Cleaning and shifting of coaches and wagons | 269,865 | 133,668 |
| Other services | 1,805,615 | 1,002,312 |
| Total | 15,318,064 | 13,182,322 |

Other services predominantly include expenses related to the environment, education, and similar charges.

4.19. → Change in Reserves and Provisions Relating to Operating Activities

IN CZK THOUSAND

| | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---|------------------------|------------------------|
| Change in reserves | 5,856 | -53,215 |
| Change in provisions against receivables | -24,045 | 57,014 |
| Change in provisions against tangible fixed assets | -242,133 | -304,197 |
| Change in provisions against non-current financial assets | 0 | -2,521 |
| Change in provisions against inventory | -29,703 | -48,930 |
| Total change in reserves and provisions relating to operating activities | -290,025 | -351,849 |

The decrease in the amount of provisions against tangible fixed assets is disclosed in Note 4.2. and the decrease in the amount of provisions against inventory is disclosed in Note 4.4.

4.20. → Other Operating Income

IN CZK THOUSAND

| | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---|------------------------|------------------------|
| Settlement of losses from passenger transportation from the State budget including the grant for student fare | 2,535,782 | 2,625,704 |
| Settlement of losses from passenger transportation from the regional budgets including the grant for student fare | 4,561,631 | 4,469,286 |
| Other grants | 587,037 | 718,734 |
| Recoveries of receivables written off and transferred | 72 | 4,240 |
| Contractual penalties and default interest | 74,545 | 114,686 |
| Compensation for deficits and damage | 122,595 | 122,348 |
| Other | 463,226 | 505,023 |
| Total other operating income | 8,344,888 | 8,560,021 |

4.21. → Other Operating Expenses

IN CZK THOUSAND

| | YEAR ENDED 31 DEC 2006 | YEAR ENDED 31 DEC 2005 |
|---|------------------------|------------------------|
| Contractual penalties and default interest | 4,942 | 3,921 |
| Write-offs of receivables and transferred receivables | 6,813 | 25,970 |
| Deficits and damage relating to operating activities | 80,205 | 28,990 |
| Insurance | 165,780 | 165,954 |
| Employee uniforms and lump sum payments | 148,748 | 151,475 |
| Compensation for asset damage and impaired health | 49,642 | 59,262 |
| Membership allowances | 23,074 | 28,016 |
| Other operating charges | 81,284 | 52,524 |
| Total other operating expenses | 560,488 | 516,112 |

4.22. → Other Financial Income and Expenses

Other financial income and expenses largely include foreign exchange rate gains and losses. A significant portion of the positive impact of the exchange rate gains and losses on the results of operations for the year ended 31 December 2006 was due to the positive development of the EUR exchange rate in relation to loans and borrowings denominated in foreign currencies as disclosed in Notes 4.9. and 4.12.

4.23. → Extraordinary Income and Expenses

Extraordinary income in 2006 predominantly includes income from the sale of real estate that was effected in 2005 in the amount of CZK 112,513 thousand, while the expenses related to this sale amounted to CZK 10,485 thousand.

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 2006 and 2005:

2006

IN CZK THOUSAND

| | HEADCOUNT | WAGES AND SALARIES | SOCIAL SECURITY AND HEALTH INSURANCE | OTHER EXPENSES | TOTAL STAFF COSTS |
|--------------|---------------|--------------------|--------------------------------------|----------------|-------------------|
| Staff | 58,566 | 15,279,692 | 5,084,809 | 729,615 | 21,094,116 |
| Management | 257 | 226,164 | 78,299 | 4,344 | 308,807 |
| Total | 58,823 | 15,505,856 | 5,163,108 | 733,959 | 21,402,923 |

2005

IN CZK THOUSAND

| | HEADCOUNT | WAGES AND SALARIES | SOCIAL SECURITY AND HEALTH INSURANCE | OTHER EXPENSES | TOTAL STAFF COSTS |
|--------------|---------------|--------------------|--------------------------------------|----------------|-------------------|
| Staff | 64,958 | 16,016,637 | 5,276,428 | 631,177 | 21,924,242 |
| Management | 274 | 188,023 | 65,071 | 4,348 | 257,442 |
| Total | 65,232 | 16,204,660 | 5,341,499 | 635,525 | 22,181,684 |

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 3,346 thousand and CZK 3,312 thousand in 2006 and 2005, respectively. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

6. → CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS

On 24 February 2005, the Company entered into the Framework Lease Contract for the purchase of railway vehicles in the aggregate amount of CZK 1.2 billion. As of 31 October 2006, all railway vehicles were taken over and they are currently being repaid. The Company issued a blank bill with the restrictive clause for the benefit of CitiLeasing, s.r.o as a collateralising instrument in respect of the lease contracts. In compliance with the bill arrangement, the lessor will be entitled to fill in the bill an amount equal to the amount due from the rent and accrued fees, up to 40 percent of the acquisition cost, net of VAT of the leased assets, in the event that the lease contract is breached.

With effect from 1 December 2006, all rights and obligations (transfer of receivables and assumption of debts) were transferred in accordance with the lease contracts including the transfer and receipt of ownership title to property which is the subject of lease financing between CitiLeasing, s.r.o. and Fortis Lease Czech s.r.o.

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 2006 are lower than the aggregate loss.

At the date of the financial statements, all contracts for regional transportation services among self-governing units and ČD, a.s. for 2007 were signed.

A draft of the agreement with the State setting out the anticipated volume of compensation for the year ending 31 December 2007 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 2007. Management anticipates that the State will fully settle the losses from the provision of services in the public interest in long distance transportation. Similarly as in 2006, management anticipates that the aggregate level of compensation received for the year ending 31 December 2007 will be lower than the aggregate loss from long-distance and regional passenger transportation.

The Company operates railway routes on the basis of a three year agreement put in place with SŽDC. The contract for operating railway routes was entered into at the end of 2005 for the years 2006–2008. The level of compensation (the Company's income) for operating railway routes, is determined by appendices to the contract for each individual year. The Company pays the amounts to SŽDC, s.o. for the use of railway routes. The amount of the compensation (the Company's expense) is determined by Act No. 526/1990 Coll., on Prices, 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 2006 and 2005 were as follows:

2006

IN CZK THOUSAND

| | EXPENSES | INCOME |
|---|------------------|-------------------|
| Securing railway routes - management of operation | 0 | 4,699,422 |
| Securing railway routes - maintenance of operability | 0 | 6,780,000 |
| Securing modernisation and development railway routes | 0 | 0 |
| Use of railway routes - passenger transport | 1,597,741 | 0 |
| Use of railway routes - freight transport | 4,363,743 | 0 |
| Total | 5,961,484 | 11,479,422 |

2005

IN CZK THOUSAND

| | EXPENSES | INCOME |
|---|------------------|-------------------|
| Securing railway routes – management of operation | 0 | 4,488,040 |
| Securing railway routes – maintenance of operability | 0 | 6,755,939 |
| Securing modernisation and development railway routes | 0 | 34,817 |
| Use of railway routes – passenger transport | 1,483,719 | 0 |
| Use of railway routes – freight transport | 4,200,261 | 0 |
| Total | 5,683,980 | 11,278,796 |

Income from the securing of railway routes and modernisation and development of railway routes is reported as income from the sale of the Company's products and services and is disclosed in Note 4.15. The costs of providing these services are reported as a component of the Company's total expenses.

The costs of using railway routes are reported as services and are disclosed in Note 4.18.

Receivables and Payable

As of 31 December 2006, the Company reported receivables and payables from and to SŽDC. The aggregate net value of the balances of these items was CZK 493,428 thousand in the year ended 31 December 2006. The payable is reported in 'Trade payables'.

The aggregate net value of balances of these items was CZK 526,594 thousand in the year ended 31 December 2005.

In addition, the Company reported a payable in 2006 arising from unbilled supplies from SŽDC reported as an estimated payable which amounted to CZK 119,428 thousand as of 31 December 2006. In addition, in 2005, the Company reported a payable arising from unbilled supplies from SŽDC, reported as an estimated payable, which amounted to CZK 79,775 thousands as of 31 December 2005.

7.3. → Post Balance Sheet Events

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

As of 1 January 2007, the Company formed a subsidiary, DPOV, a.s., to be included in the České dráhy Consolidation Group in 2007. The entity was formed by a non-cash investment of the part of business at the carrying amount of CZK 386,395 thousand. ČD is the sole owner of the entity. The newly formed entity is engaged in the maintenance and repair of rail vehicles.

On 13 February 2007, the decrease in the share capital of ČD-Telematika a.s. to CZK 2,042,105 thousand was registered in the Register of Companies. ČD, a.s. thus increased its equity investment, as described in Note 4.3.1.

The Company intends to spin off the freight transportation business into a standalone company in 2007. As planned by management of the Company, the freight transportation business will be conducted by a newly formed subsidiary ČD Cargo, a.s. to be formed by an investment of the part of the business engaged in freight transportation.

significant post balance sheet events

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On 1 January 2007, ČD, a.s. formed a subsidiary, DPOV, a.s., which has its registered office in Přerov.

As of 1 January 2007, ČD formed the organisational branch "Vlakový doprovod osobní dopravy" (Passenger Trains Crew), which provides attendance to passenger coaches, predominantly with regard to the inspection of travel documents, check-in of travellers in trains and provision of information to travellers after the transfer of passenger train staff from railway junctions.

On 23 January 2007, ČD's Board of Directors approved the formation of six Regional Asset Administrations (RSM) as of 1 March 2007 which will oversee the administration and trading of České dráhy, a.s.'s immovable assets.

Pursuant to Government Resolution No.207 of 7 March 2007, the Government revoked the authorisation for activities in ČD, a.s.'s Steering Committee with regard to Vojtěch Kocourek, Ondřej Jašek, Pavel Škvára, Jiří Volf with effect from 7 March 2007. It authorised Miloslav Müller, Director of the Cabinet of the Minister of Finance; Emanuel Šíp, Deputy to the Transportation Minister; Petr Šlégr, Deputy to the Transportation Minister; and Rudolf Vyčichla, First Deputy to the Transportation Minister for the activities in the Steering Committee of České dráhy, a.s. with effect from 8 March 2007. With effect from 8 March 2007, it appointed Petr Šlégr Chairman of the Steering Committee of České dráhy, a.s. and Rudolf Vyčichla Vice-Chairman of the Steering Committee of České dráhy, a.s.

On 27 March, the Board of Directors of ČD, a.s. decided to form a Board of Directors of the ČD Group as of 1 May 2007 as an advisory body of the Board of Directors of the Parent Company for the coordination of the management of these companies. Members of this advisory body will be members of the ČD, a.s. Board of Directors and CEOs/directors of the following companies: ČD-Telematika a.s., Traťová strojní společnost, a.s., Výzkumný Ústav Železniční, a.s., Dopravní vzdělávací institut, a.s., DPOV, a.s., and ČD travel, s.r.o.

On 19 April 2007, the Steering Committee of České dráhy, a.s. recalled the following members of the Supervisory Board of ČD, a.s.: František Formánek, Miroslav Kapoun, Karel Korytář and František Vašítek. With effect from 20 April, the Steering Committee appointed the following new members of the Supervisory Board: Karel Březina, Jan Černožský, Zdeněk Prošek and Martin Roman.

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 Relations between the Controlling and Controlled Entity and on the relationship between the Controlled Entity and Other Entities Controlled by the Same Controlling Entity for the Year Ended 31 December 2003 (hereinafter the 'Related Party Report'). Concurrently, the Board of Directors of the Company has not decided otherwise.

In the opinion of České dráhy, a.s., if no controlling contract was concluded, the obligation to prepare a 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 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 abbreviations

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| | |
|-----------------|---|
| AEIF | European Association for Railway Interoperability |
| CER | Community of European Railways |
| CEVIS | Central Car Information System |
| CNP | Central Freight Cash Desk |
| ČD | České dráhy, a.s. / Czech Railways, joint stock company |
| ČD-T | ČD-Telematika a.s. |
| DTNP | Freight traffic data warehouse |
| DTOP | Passenger traffic data warehouse |
| EC | Passenger train category of higher quality (EuroCity) |
| ERA | European Railway Agency |
| EUROFIMA | European Company for the Financing of Railroad Rolling Stock |
| ETCS | European Train Control System |
| FIATA | International Federation of Freight Forwarders Associations |
| GSM-R | Global System for Mobile Communications-Railways) |
| GVD | Train transport flowchart |
| Hrtkm | Gross tonne kilometres (the total of products of transport weights of trains and transport distances) |
| IC | Passenger train category of higher quality (InterCity) |
| ISOŘ | Information System of Operational Management |
| JLV | Jídelní a lůžkové vozy, a.s. |
| Oskm | Passenger kilometres (the total of products of the number of paying transported passengers and carriage distances) |
| OSŽD | Organizace pro spolupráci železnic/OSJD – Organisation for Railways Cooperation |
| PARIS | Sale and Reservation Information System |
| POP | Portable personal cash desk |
| SC | Passenger train category of highest quality (SuperCity) |
| SENA | System for preparation of timetables |
| SFDI | State Fund for the Transport Infrastructure |
| SŽDC | Správa železniční dopravní cesty, s.o./Railway Route Administration |
| TERFN | Trans-European network for freight transport |
| TSI | Technical specifications of interoperability |
| TSS | Traťová strojní společnost, a.s./Track Mechanical Company |
| Ttkm | Tariff tonne kilometres (the total of product of the volume of carriage of goods and tariff-related carriage distances) |
| ÚDIV | Central freight car management |
| UIC | International Union of Railways |
| UNIFE | European Association of Railway Industry |
| UNIPOK | Versatile ticket office |
| Vlkm | Train kilometres (the total of products of the number of trains and distances run) |
| VÚŽ | Výzkumný Ústav Železniční, a.s./Railway Research Institute |

identification and contact data

| | |
|---------------------|---|
| Name of the Company | České dráhy, a.s. |
| Registered Office | Prague 1, Nábřeží L. Svobody 1222, 110 15, Czech Republic |
| Corporate ID | 70994226 |
| Tax ID | CZ70994226 |
| Registry Court | Prague |
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