REPORT ON THE BUSINESS ACTIVITIES AND RESULTS OF THE COMPANY AŽD PRAHA S.R.O. FOR THE FISCAL YEAR 2010/2011

1. 10. 2010–30. 9. 2011

AŽD PRAHA

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GENERAL MANAGER'S FOREWORD

Dear Business Partners, Associates and Co-Workers, Dear Friends,

in the introduction to our company's annual report for the past period, I would like to thank all our employees for their excellent work, our associates for their support, our business partners for their trust and our friends and supporters for promoting the good name of AŽD Praha.

The 2010/2011 financial year was definitely not an easy one. In the beginning of his period there were certain doubts and uncertainties – how can we fulfil our plans, how many contracts will we secure and what is the future outlook. Looking back at this period, I am pleased to state that we fulfilled our main tasks in the economic, technical and business areas. We fulfilled them despite the commencing recession and the consequent reduction in transportation infrastructure investments, and despite a situation when success abroad has never been more difficult. We are even more proud of our results because of the above conditions. We have maintained and strengthened the good name of our company on the domestic mar-

ket as well as abroad. Professionalism, flexibility and our efforts to meet all our customers' requirements have been and will continue to be the main principles of our policy.

We continued with the implementation of domestic projects involving the backbone networks of the 3rd and 4th national transit corridors, secondary railway lines and junctions, such as the Beroun – Zbiroh, Mariánské Lázně – Cheb and Benešov – Votice sections, commencement of work at the Stará Paka junction and other projects. We continued the implementation of telecommunication systems, road telematics systems and other technologies. We strived to be flexible when responding to emergencies, the recommendations of our customers and train drivers by initiating and implementing our own improvement proposals. However, it is clear that the times of full capacity utilization, which we remember from five years ago, are not coming back. Hence we have continued to reduce company costs not only by reducing our operating costs but, unfortunately, also by reducing number of our employees and by implementing the very much needed reorganization. That resulted, among other things, in reduction in our production capacities in Prague. Nevertheless, we should also remember that we helped many people to find new jobs within the company.

Abroad, we extended the positive results of the previous years. One should not overlook our important contracts in Belarus, Lithuania, Serbia and Montenegro and the deliveries of our products to Malaysia, Turkey, Greece and the United States. Unfortunately, due to in particular political changes, we have not been successful in Egypt and Syria and our results in Bulgaria also lagged behind our expectations. We carried out very important contracts in Slovakia – for example, the construction of the Žilina – Teplička large railway marshalling yard. Company revenues from foreign contracts amount to approximately 20% of our overall revenues, a fact that is very important for the future. Other important factors include the development of telecommunication and information technologies, a new public address system networks, local and railway radio network systems and our participation in building the GSM-R and CAB radio system. All of this was accomplished last year.

Among our other activities, I would like to emphasize here our deliveries for the Prague Metro and our activities in the area of road telematics for cities and municipalities in both the Czech Republic as well as abroad. Our revenues in these areas have been also growing and have partially compensated the losses in the railway sector.

Technological development played a very important role in the past period. The significant financial resources that we have invested this year (as we do every year) into technological development are at least comparable to our European and international competitors. Some of these projects, which we have already put or will soon put into trial operation, include the ESA 44 electronic interlocking, the new PZZ-J level crossing system, the RBA-10 radio-block for secondary lines, the LS 06/07 automatic train protection, new GTN systems, new EZS and VNPN functionalities reacting to accidents (registering loss of shunt and warning against trains illegally passing through signals), diagnostic systems, devices for Metro and many other systems and their applications. We consider as a very important step the completion of the ETCS pilot project, where we applied our own solutions and subsystems.

Another very positive step was the consolidation of our subsidiaries, a process that has provided positive results not only in terms of economy but also in education, production, development and other areas. It is necessary

to emphasize the importance of our service, logistics centre, foreign trade as well as assembly and production activities.

The importance and role of our company is underlined by its integration into European projects, the participation of our specialists in technical and legislative committees, the participation of our company in ACRI, UNIFE, UNISIG, the Interoperability Technological Platform and other associations and institutions. Our participation in the Galileo Project, the European Space Agency, the Chambers of Commerce of the Czech Republic and Capital City of Prague – all of this highlights the possibilities for us to expertly influence future decisions, strategies and concepts in terms of transportation policies not only in the Czech Republic.

Dear Friends,

The last year was a very difficult one for our company, yet it was also a dynamic and interesting year. I would like to direct your attention to some other parts of this annual report, where you will be able to see the results of the previous financial year not only in the form of figures, but also structured into individual chapters that describe the individual activities of our company in detail. Once again, let me thank all of you who have contributed through their work to the excellent results and good name of our company.

I would also like to thank our business partners and customers who have enabled us to exercise our capabilities and to utilize our extensive potential. Their faith in us represents our greatest commitment for the future and we will strive to maintain it through our reliable and high quality work, making sure that our technologies will safely fulfil their purpose for a long time to come. It is my desire that the name "AŽD Praha" comes to the mind of everybody who hears the words Professionalism, Quality, Correctness and Top Czech Technologies.

Ing. Zdeněk Chrdle
CEO and General Manager

MANAGING BODIES AND ORGANISATIONAL UNITS

AŽD Praha s.r.o. (Identification No. 48029483) is solely a Czech Company owned by a long-time stable group of owners. It is a limited liability Company established pursuant to the Czech Commercial Code. It is registered in the ommercial Register administered by the Municipal Court in Prague, Section C, Entry No. 4616. From legislative and economic point of view it constitutes a single legal entity.

The Company is managed by a Board of Directors consisting of three executive directors. The Company Head Office has been established to ensure top management and co-ordination functions and it manages and coordinates activities aimed at implementation of the Company's subject of business.

The Company labour relations were fulfilled during the fiscal period in compliance with the legal regulations of the Czech Republic and a Corporate Collective Agreement.

The Company's bodies and representatives are mentioned in this Annual report according to the state as of September 30, 2011.

COMPANY BODIES

as at 30. 9. 2011

GENERAL ASSEMBLY

EXECUTIVES

Ing. Zdeněk CHRDLE
Miroslav HORA
Ing. Alice DICKOVÁ

SUPERVISORY BOARD

Ing. Miroslav KOZÁK
Ing. Vladimír KETNER
Daniela VESELÁ

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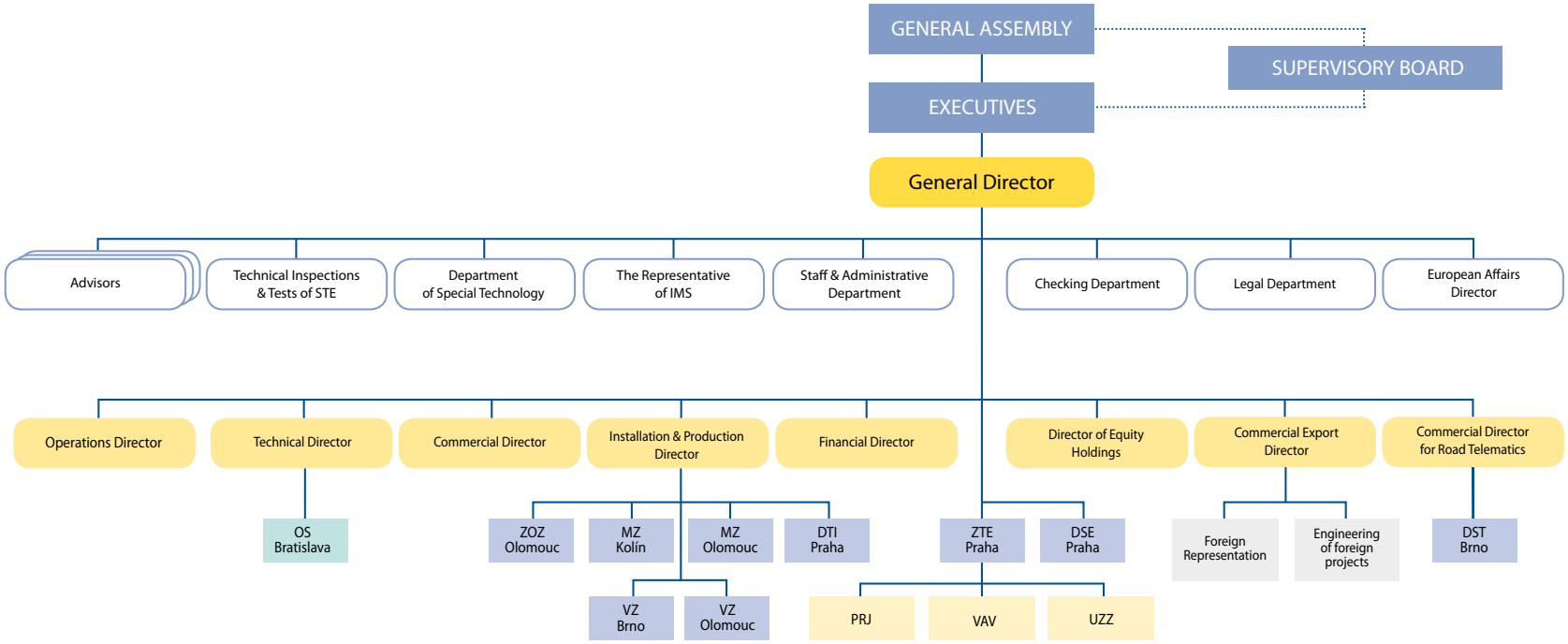
ORGANIZATION SCHEME

as at 30. 9. 2011



Key:

VZ – Production Plant
MZ – Production Plant
ZOZ – Logistic Plant
ZTE – Technika Plan
PRJ – Design Department
VAV – Reseach and Development
DSE – Service of Signalling and Telecommunication Technology Department
DTI – Division of Teleinformatics
DST – Division of Road Technology Automation
OS – AŽD Praha s.r.o. – Organization Unit Bratislava
IMS – Integrated Management System
UTZ – Specific Technical Equipment
UZZ – Foreign Trade Supportive Department

Comments on the changes of the organizational structure

During the fiscal year 2010/2011 the following organizational changes were made effective from 1st March 2010.

Following decrease of investments in transport infrastructure in the Czech Republic and reduction of the scope of traffic constructions on railways the company management has taken principal measures aimed at trouble-free solution of the difficult situation.

By Decision of the General Manager No. RSP-RZ-41/38 the activities of the Production Plant Praha had been gradually scaled down in several phases and finally the production plant was dissolved. In the first phase production activities were reorganised, a part of the production program had been transferred to the production plants in Olomouc and Brno, and effective from 1 February, 2011 a Production Workplace Praha was established and located in the Company premises in Prague 10, Žirovnická 2/3146 under control of Logistic Plant Olomouc. Selected employees of the Production Plant Praha, mainly from the Production technical preparation, Testing facility, and Tool shop departments

were transferred to the newly established facility. Other selected employees were transferred to work positions at the Company headquarters and to several other organisational units.

The remaining part of employees was dismissed gradually from employment with the company by 30 June, 2011.

By the Decision of the General Manager RSP-RZ-41/39 other organisational changes were made effective from 1 February, 2011.

Separate units for installation activities and for production activities management including managerial positions were dissolved. The activities were merged into a single Installation and Production section and a managerial Installation and Production Director position was established.

The Installation Plants in Kolín and Olomouc, DTI Prague, Logistic Plant Olomouc and Production Plants in Brno and Olomouc shall report to the Installation and Production Manager.

Further, effective from 1 February 2011 Operational Section and Operations Director managerial position were established. The purpose of the newly created organisational unit is to realise orders and fulfil tasks related to maintenance and repairs of railway telecommunication and signaling equipment.

During the first quarter of 2011 also the permanent office of the AŽD Praha s.r.o representation to the European Union in Brussels was closed down. However, activities of the representation and cooperation with European railway institutions have continued to be maintained by the European Affairs Director on an ongoing basis.

WHO WE ARE

AŽD Praha Company is the major Czech supplier of control/command, signalling, information and telecommunication systems and technologies particularly for rail and road transport.

Owing to comprehensiveness of our activities ranging from need analyses and development of new systems, through the design, production and installation to long-term servicing AŽD Praha offers efficient solutions tailored to the particular needs of its customers.

In addition to its stable position on the domestic market, AŽD Praha Company is also successful abroad where it also broadens its activities to non-European markets.

SCOPE OF BUSINESS

COMMERCIAL SECTION

Throughout the long-term presence on the transport infrastructure market AŽD Praha Company has reached a leading position in control/command, signalling and communication technologies in railways. It has become obvious in the recent period that the company is able to cope successfully with complex tasks resulting from the orders implemented within the company's scope of business. AŽD Praha Company is able to ensure preparation of project documentation, its own installations and deliveries, provide necessary servicing and warranty and post-warranty repairs.

The company disposes of all certificates authorising the company to perform activities in railways and it disposes with capacities capable not only to completely install and put equipment into operation but also to equip the installations with required documentation in accordance with relevant standards and regulations. The activities of the company are not only focused on direct orders, but also on design, development, research and production of signalling, control and communication systems and their components.

All these activities are performed within an environment ensuring quality control of production, installation and other works including protection of environment and occupational safety and health. Quality of products and services, environment protection and occupational safety and health is guaranteed by fulfilling the requirements of ISO 9001, ISO 14001 and OHSAS 18001 standards. Compliance with these standards is confirmed by certificates issued by the IQNet certifying body.

FOREIGN MARKETING AND TRADE DEPARTMENT

Increase of orders from abroad belongs at present among the most successful attributes of AŽD Praha Company. As one of indicators showing the growth of the export balance it can be mentioned that in 2010 our company established another two subsidiaries abroad – AŽD Signalling Inc. in the U.S.A. developing marketing and sales activities on the local market, and MPC Service company in Belarus, which will be in charge of all service activities connected with supplies of AŽD Praha systems to Belorussian railways. Thus in addition to Serbia and Bulgaria, AŽD Praha has now two more direct representations abroad. Equally promising are successful business negotiations held in other countries like Turkey, Greece, USA and India.

COMMERCIAL SECTION FOR ROAD TELEMATICS

The commercial section for road telematics (OBU STM) offers and delivers advanced systems and technologies meant for increasing traffic flow and safety of road transportation. As an important milestone in the company's activities successful entry in the Asian market in the fiscal year 2010/2011 may be mentioned, where the first phase of the highway line management and information system installation in Azerbaijan has been completed. Further, OBU STM has successfully enhanced their activities, especially in the Czech Republic.

The section offers and delivers to their customers a large product portfolio. The highway and main road transport line management system may be considered the most significant product of these days. Also deliveries of information systems, electronic systems and management and signalling sys-

tems for motorway and main road tunnels are related to the system. No less important products are the municipal command and control centres, state-of-the-art system for traffic light management on crossroads and pedestrian crosswalks, controlled parking management and tie-in guidance systems to parking places. Monitoring systems, intelligent traffic camera systems based on identification and automatic recognition of car licence numbers and identification of various driving offences rank among other products. OBU STM provides installations, repair, administration, maintenance and operation of public lighting for cities and towns.

OBU STM offers complete solutions tailored to the needs of customers starting with project documentation and engineering activities, production and installation to maintenance and servicing of the technologies delivered. Last year the section extended their service offer with land communication safety audits.

In addition to commercial activities the section also concentrates on their "Production, repair and installation of measuring instruments" business including speed measuring systems, tunnel physical quantity measurement systems, and vehicles physical quantity measurement systems (height, weight etc.).

The commercial section for road telematics belongs among long-time active members of SDT CR (Road Telematics Association). It organises lectures and provides consulting services and participates in project and grant solutions of the Ministry of Transports of the CR and the Ministry of Education, Youth and Sports of the CR.

SPECIAL TECHNOLOGIES

Special Technologies section is focused on the activities lying beyond the main scope of business of the company. It provides complex solutions of the systems protecting safety of persons and property, e.g. electronic safeguarding system, electronic fire system, camera system, access system, mechanical protections. The aforementioned technologies can be connected to an integration platform. Based on the customer needs analysis, the most appropriate solution is proposed in form of a study and project documentation can be prepared. Consequently our team carries out realization of the project including supplies of equipment, testing, staff training and subsequent servicing.

ANTICIPATED ACTIVITY DEVELOPMENT

BUSINESS

Difficulties caused by a decline in the global economy are becoming evident at this moment. The problems are reflected in the national economic environment, where this situation makes difficult to meet the state budget. It was for these reasons that cost-cutting budget measures were adopted, including a drop in investments in the transport infrastructure and subsequently a drop in the number of investment projects.

In the situation which has recently arisen, AŽD Praha will have to focus on economical and cost-saving solutions in its main activities. In the main area of control, signalling and communication systems, the potential of the production programme must be used in such way so as to achieve the most effective utilisation for customer requirements. The efficiency of the process must be supported by related service programmes and equipment maintenance orders. This course of action will allow AŽD Praha to maintain its key position on the domestic market by gaining a share in large transportation investments.

The company's professional level, its technical potential and long-term experience also allow the company to gain a greater share on foreign markets. With an appropriate pricing policy, foreign orders should compensate the certain fall in domestic investments and ensure successful development of AŽD Praha.

FOREIGN ACTIVITIES

Despite continuing negative effects of the world economic crises the foreign orders to the Company showed a dynamic progress. Centralisation of foreign trade operation is a key aspect of the AŽD Praha foreign activities. Individual destinations, called field of operation, are administered by task groups of employees. These are teams usually put together when an important contract is acquired or a significant position in the foreign market is achieved. These teams are centralised under one organisation of the Foreign Marketing and Trade department, allowing better control over the foreign activities and coordination of implementation of contracts within the company.

Under the auspice of Foreign Marketing and Trade department, a new „Engineering of foreign orders" section responsible for project management of foreign orders was established.

Priority foreign markets of AŽD Praha are Belarus, Serbia, Montenegro, Lithuania, Bulgaria, Turkey, Greece, Egypt and USA. Newly the company strives to penetrate the territories of Latvia, Croatia, Taiwan and Jordan.

Lithuania

AŽD Praha as a member of the consortium together with the Lithuanian company UAB FIMA provides supplies of the signalling equipment for 100 km line section Kaunas – Kybartai. Completing of the entire contract is scheduled for August 2012. The supply includes ESA 11-LG electronic interlocking and ABE-1-LG electronic automatic block systems.

Belarus

During 2012 implementation of safeguarding system of approx. 100 km Polock – Vitebsk line section shall be completed where AŽD Praha is to deliver ESA 11-BC electronic interlocking equipment, ABE-1-BC electronic automatic block and universal power supply sources of the UNZ-BC-3 type. In December 2011 deliveries of the systems ABE-1 and ESA 11-BC for the Severnyj – Ždanoviči line section were started. The project is scheduled to be completed in the 2nd quarter

of 2012. Further AŽD Praha is completing preparation of the project documentation for construction of Mogilev, Lida, Kalinkoviči large railway junctions and Baranoviči – Luninec and Osičopoviči – Žlobin line sections. The project documentation shall be ready in the first quarter of 2012.

Serbia
Interlocking systems for 5 level crossings were installed in Serbia during 2011 financed by the Czech Development Aid. During 2012 the company anticipates starting of project activities related to installation of signalling equipment for the Niš – Dimitrovgrad line section.

Montenegro
In Montenegro the 3rd phase of implementation of the Podgorica – Nikšič railway line was completed and the final 4th phase is scheduled for 2012.

Turkey
In 2012 AŽD Praha shall terminate the warranty service of the PZZ-EA level crossing system on the Söke – Ortaklar line section and shall evaluate the accident rate compared to the situation prior installation. The company plans starting the delivery of a signalling system for Hasanbey depot in the 1st quarter 2012.

Greece
In Greece, AŽD Praha has completed the delivery and installation of 15 (fifteen) level crossing systems. Three level crossing systems have been installed on the Thessaloniki – Alexandroupolis line and twelve level crossings in the premises of Thriassio Pedio logistics centre near Athens. In 2012 evaluation of a public tender for installation of Thriassio II level crossing systems, in which AŽD Praha has submitted the economically most advantageous offer, is anticipated.

USA
In 2011, AŽD Praha revised successfully the level crossing system for the Nashville Eastern Railroad company (NERR) installed on the Waretown – Lebanon line section. AŽD Signaling Inc. subsidiary is planning trial operation of the PZZ-US3 level crossing system on the Union Pacific lines and our inclusion in the vendor list.

Bulgaria
Another key territory for AŽD Praha is Bulgaria where its Balkan SAST subsidiary has been established and operated since 2004. Since then the Balkan SAST has concluded a four year contract with the Bulgarian Railways for deliveries of level crossing systems and has performed deliveries of other railway signalling elements (point machines, signals). The key strategy on this market is also based on the transfer of production from the parent company with the objective to reduce costs and to support the local market.

India
The company has been finishing recertification of the station interlocking system of ESA 11-IR type in Lucknow conditioning participation in other commercial projects.

ROAD TELEMATICS

The Commercial Section of Road Telematics together with the division of Road Technology Automation plan to focus its activities in the following period mainly on the development and acquisition of other long-term contracts and will seek to promote our technology to other foreign markets.

In the area of technological development they will pursue the development and the expansion of advanced Telematics technologies and increase their competitiveness on foreign markets.

INTEGRATED MANAGEMENT SYSTEM AND ENVIRONMENTAL PROTECTION

The Integrated Management System (IMS) is an integral part of company management meeting all requirements of ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007. It concerns an entire complex of interconnected requirements regarding quality standards, environmental protection and occupational safety and health at work, which is incorporated into the overall corporate management system. This modern integrated management system manages QMS, EMS and OHSAS standards as a platform for improving business performance, supported by the objectives stated in the document "POLICY OF INTEGRATED MANAGEMENT SYSTEM AZD PRAHA S. R. O."

The company in line with IMS and management's objectives, all that with the support of the staff, focuses its business activities to meet entirely the requirements, wishes and expectations of customers and other concerned partners. The active cooperation with customers on matters of quality and reliability of AZD Praha enables the company to reach top positions in the competitive environment in the area of its business.

ENVIRONMENTAL PROTECTION

We minimize the impacts of the company activities on the environment.

Consistent legal analysis of legislation in relation to particular activities is an integral part of the company success and its application to the management system through specific organizational standards ensures the legislation fulfillment. A responsible company's approach to the environment is then reflected in all business segments:

Integrated Management System: IMS guarantees the quality, safety and environmental performance of AŽD Praha wide range activities. The company's management system is introduced in the area of environmental protection, incl. certificate according to DIN EN ISO 14001 and is regularly certificated by re-certification and supervisory audits.

Education: Continuing education of AŽD Prague staff in the field of individual environmental parts (water, air, waste, nature, chemical substances and mixtures, energy savings) is the company's contribution to sustainable development in the environmental area, including mastery of environmentally friendly technologies.

Marketing: Knowledge of the market needs in segment of signalling equipment including environmental parameters is very important for the success of our own products and technologies with customers.

Research and development: Responsible approach to developing of new products and signalling systems will minimize impacts on the environment. We are solving crucial stages of the life cycle of a new product with regard to material inputs, analyzing its energy intensity and also the fate at the end its useful life - the possibility of its recyclability.

Design activities: High quality design preparation of projects, including meeting all requirements stipulated by the state administration bodies in the area of the environment ensures the compliance and also the cost optimization with the project implementation.

Business: Selection of responsible subcontractors and a contract signed to full satisfaction of all parties involved guaran-

tees the quality, safety and environmental efficiency of the work carried out under the contract.

Production: Modern machining centers in engineering production contribute to its environmental performance and mastery of high technology in the electronics sector - in the PCB assembly it is the basis of the quality of products and components and the subsequent customer satisfaction.

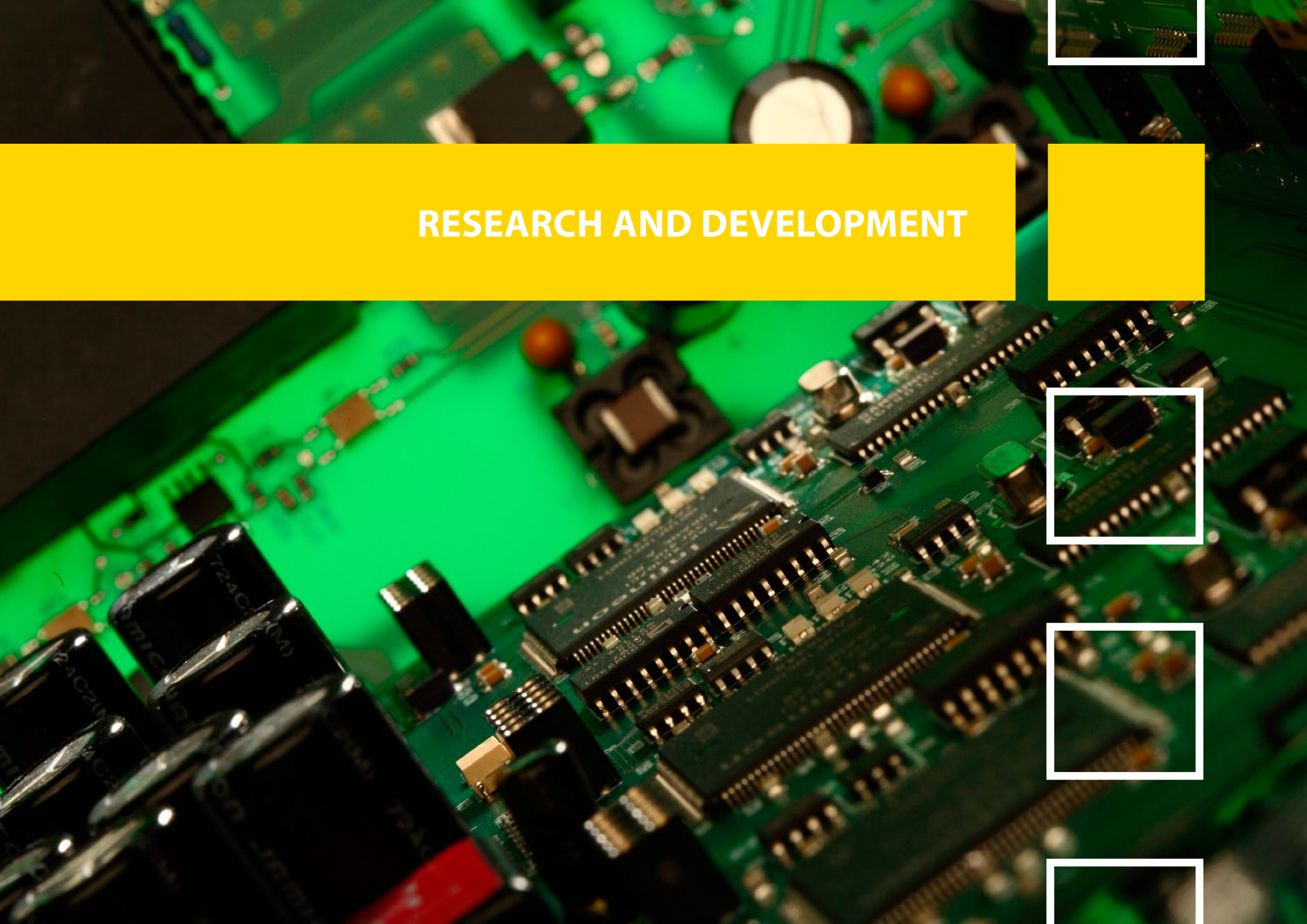
Assembly: Assembly work on line construction sites in the countryside requires careful and responsible approach to the surroundings. Respecting of all decisions of state administrative bodies in the area of water, nature and landscape protection is the responsibility of all managers at various levels of management and employees on construction sites and is an essential prerequisite for environmental protection.

Logistics: Our modern fleet meeting the required emission limits economically secures the supply of both the manufacturing and also assembly plants of the company and also of our customers.

Service: Decreasing number of service missions for operating systems in the area of telecommunication and signalling technology is a reflection of AZD Praha product quality. For the service area it also pays credo „Not only fast, safely, but also ecologically."

The real ability to protect the environment is reflected in the annually discussed „Environmental Profile of AZD Praha s.r.o.," analyzing in detail the trends in individual areas of the environment. It summarizes the analysis of the environment individual areas, evaluates the economic aspects and on the basis of these results it can be assumed that the ongoing restructuring activities, including optimization of paint shops will have also a beneficial impact on the environment and besides reducing waste and air emissions it will result in energy savings.

RESEARCH AND DEVELOPMENT



RAILWAY TRAFFIC

Traditionally AŽD Praha pays great attention and the considerable financial resources to ensure quality outputs its own technology development. AZD Praha employs high-quality and highly skilled developers and thanks to their superior results the own in house research of the portfolio of key products is ensured.

Besides the products for road telematics and other activities, the decisive volume of company production is formed by modern electronic systems to control and secure the railway traffic. In addition to the gradual electronization of the usual categories of equipment, such as line signalling, station interlocking and level crossing systems, the increasing attention is paid to brand new technologies, such as the use of satellite navigation in railway signalling technology. In addition, new approaches to improve railway safety are sought and developed. The most widely known example is the development of Radioblok, which was launched into training operation on the Číčenice – Volary track, and which is designed so as to increase the safety level on lines of the D3 category with the lowest investment costs.

Another important step is the completion of the pilot project of ETCS on Poříčany – Kolín line section where AŽD Prague contributed significantly in supply of this modern European Automatic Train Control System.

An important part of railway signaling systems form systems for its remote control. These systems (including systems and other subsystems) are also involved in traffic management and they form an important and effective tool for railway workers. A significant representative of these systems for the management of the railway transport there is the Graphic-technological overlay of the signalling systems, whose main function is providing an overview of the current and future traffic situation and also automatic management of traffic documentation. Currently AŽD Praha is working on important technological innovation of Graphic-technological overlay. This is a development of entirely new functionality of Automatic train route setting, whose introduction will further enhance the work comfort of traffic employees.

The technical development, largely provided by our own research and development employees, is also supported by cooperation of several professional companies, and some colleges and universities.

Quality results of our own house technological development and research is a necessary precondition for successful application of our products in foreign markets and is also reflected into the international cooperation (e.g. within CENELEC, UNISIG and UNIFE).

The AŽD own technological development also enables use of its products in the Prague's Metro and the road signalling technology (both at home and abroad).

ROAD TELEMATICS

Research and development for road telematics is provided by a separate R & D centre.

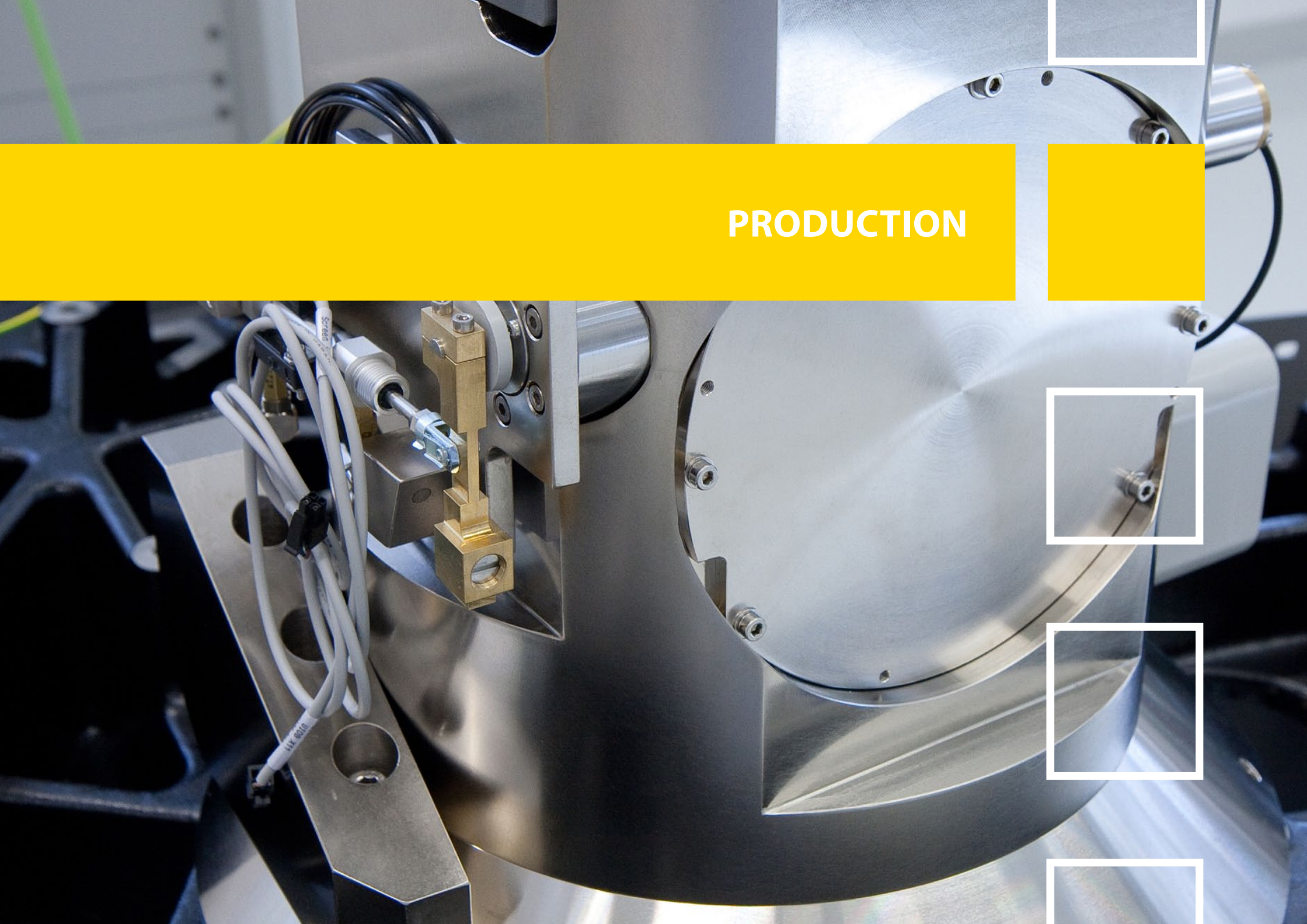
New types of controller development, the MR-11 (designed to control all types of intersections) and MR-22 (designed to control pedestrian crossings and small intersections) with integrated interface for the OCIT communication protocol, were completed last year. These controllers use standard components which guarantee their high quality. Their competitiveness is ensured also by meeting the high requirements of European Standards for operation

safety when part of the system fails. They already conform to current trend for use of LED diode signals.

The final certification of ČMI successfully completed a newer version for measuring section speed, the MUR-07, and then started innovation of other camera systems.

The development centre also devoted a great deal of attention to the extension of functions of the EDAPTIVA urban traffic control centre. This control centre provides supervision and control of traffic control within small and large urban agglomerations, including connection to other telematics technologies installed in the monitored area (strategic detectors, variable traffic signs, traffic continuous control, information systems for drivers, meteorological announcing points, camera systems, etc.).

PRODUCTION



A significant part of AŽD Praha is its own industrial production, which contributes to supply of the signalling and telecommunication technology of our production plants.

Production plants perform the task of the main manufacturers for building of the signalling and telecommunications system projects implemented by AŽD assembly plants on railway projects in the Czech Republic and abroad.

Production plants significantly contributed to the ongoing restructuring of the Company. During this fiscal year the activity the Production Plant Praha ended and the newly established Production Workplace Praha and its staff was transferred to Logistic Plant Olomouc.

Within the specialization of production plants the Production Plant Olomouc is mainly focused on engineering production. The plant is equipped with modern program-controlled CNC machining centers. Within restructuring of the production plants, modern machines for sheet metal forming were moved from Prague to Production Plant Olomouc, where the production of the cabinet program for needs of our company and for external customers was launched during the last year.

The Production Plant Brno is specialized for the production of electronic and electro-technical configurations.

Within restructuring of the production plants the products of electronic and electro-technical character were taken from the production program of the Production Plant Praha and simultaneously the products of an engineering character were transferred into the Production Plant Olomouc. Cooperation production of electronic configurations for the external customers, especially the production of electron microscopes for the FEI Company, has a large share in the production volumes.

The high technical level of AŽD production base is designed to modern technology corresponding to the global trends in the signalling and telecommunication technology of electronics and mechanical engineering.

PRODUCTION PLANT BRNO

In the area of AŽD manufacturing the Production Plant Brno is specialized in manufacturing electronic and electro-technical configurations for railway signalling and telecommunications systems. The manufacturing process of installation of electronic configurations on printed circuit boards are designed for the implementation of piece, small-lot to medium-sized production of the large range of configurations. This corresponds with the proper equipment by technological devices that enable rapid switching to different products. The required high quality and reliability of products for railway signalling and telecommunications technology corresponds with maintaining a high professional level of the technicians and operators, and strict evaluation criteria for assessing the product compliance.

In addition to production of electronic configurations of repetitive own production also electronic configurations for external customer are produced in the Production Plant Brno as well as prototypes of configurations for new systems developed by the Technika Plant. In this production area the capacity of Production Plant Brno to produce more complex electronic configurations can be employed specifically in double-faced assembly of surface mounted components combined double faced assembly of components with outlets into open holes.

In the Production Plant Brno all electronic configurations on printed circuit boards are

assessed against the criteria of international standards applicable to most of IPC Class 3.

In fiscal year 2010/2011 the Production Plant Brno was one of the implementers of the project „Restructuring of Production Plant". As part of this project primarily products of electronic and electro-technical character were taken from the production program of Production Plant Prague, and subsequently products of engineering character were passed from the production program of Production Plant Brno to the Production Plant Olomouc. Along with coping with extreme swings in the manufacturing capacity of the Production Plant during the last fiscal year, the restructuring of the project was as a challenge for the production management and especially for departments of production planning and logistics.

Cooperation production of electronic configurations for external customers and primarily the production of electromechanical vacuum sub assemblies (called consoles) of electron microscopes for FEI Company has a large share in the production volumes of the Production Plant Brno. Active approach of AŽD Prague to cooperate with this important partner contributed to our winning the tender for suppliers of higher units of electron microscopes. In the fiscal year 2010/2011 new technologically clean manufacturing facilities with an area of 750 m^2 in Brno Street Gromešova, were put into operation, which represents not only doubling of the current production capacity, but also opens up a space for further development of future cooperation.

Environmental protection

The Production Plant Brno contributes to environmental protection within the environmental policy and strategy of AŽD Praha, specifically by consistent utilisation of lead-free alloys in all soldering processes during production of electronic and electro-technical configurations of its own production. The ban of use of lead in electro-technical and electronic products as stipulated in the Directive EU 2002/95/EC RoHS and adopted by the Act No. 185/2001 Coll., on waste, is thus adhered to.

PRODUCTION PLANT OLOMOUC

Within the specialisation of production plants the Production Plant Olomouc is focused on engineering production. The plant is equipped with modern, high performance programme-controlled CNC machining centers Mazak,, some of which were, owing to a successful project, co-financed by the European Fund for Regional Development and the Ministry of Industry and Trade of the CR.

Also acquisition of sheet bending and shearing machines, TRUBEND 5170 CNC press brake and TRUSHARE 3103 CNC plate shears and also purchase of BUA 25B/1250 Practic universal plain grinder were a part of the project.

Additional modern sheet metal forming machines have been moved to the Production Plant Olomouc within the restructuring of production plants. TRUMPF TruPunch 3000 punching centre and SAFAN e-Brake 150-3100 TS1 press brake, owing to which the production of cabinet program was launched during the year in the Production Plant Olomouc.

High quality and accuracy of the products are also ensured owing to LK G-90C 3D measuring centre and FARO Gate plus 3D portable measuring equipment.

Owing to the new machines and equipment it is possible to apply successfully the outputs of AŽD Praha research and development departments and to position

signalling and telecommunication technology products in the demanding condition of foreign markets.

In the sector of non-railway production the cooperation is maintained with a number of companies in Olomouc region (OSO Olomouc, John Crane, Koopron, Walter Vysloužil) in the field of metal cutting. The cooperation with Saltec and Sécheron was launched in the field of sheet metal forming.

AŽD Praha makes large investments in modernisation of production technologies in individual production plants not only to increase the productivity but also to continuously improve its image in the area of environmental protection which documents the starting of costly paint shop reconstruction in Production Plant Olomouc.

INSTALLATION

In the 2010/2011 business year the capacities of installation plants were concentrated on unfinished sections of railway corridors which have not been modernised, including the railway junctions. During the period under review all projects implemented on corridors and also on secondary lines were successfully equipped with AŽD Praha modern technology. It mainly concerns new types of the line signalling system ABE-1, new electronic elements in the station interlocking systems (ESA 11 and ESA 33) and last but not least the axle counters PZN-1. In the DOZ area for remote control of individual stations including the KSZZ communication system we continue deploying these systems which contributes to a better coordination and safety of the railway traffic. In addition, our equipment has been supplemented by advanced diagnostics for quick information of the operators, maintenance and service workers including GTN system for railway traffic employees. In this fiscal year the AŽD Praha systems were supplemented in many railway stations by a new function of loss of shunt registering „EZŠ" to improve traffic safety on the route and this supplementing will continue also in the next period. As another innovation to improve traffic safety we are offering the VNPN function which is stopping railway vehicles when they pass the signal „Stop" on all train routes and that in relation to the deployment of axle counters.

In the area of telecommunication technologies AZD Praha enters the market with several significant elements contributing to the improvement of project facilities.

During the period under review the list of completed projects on railway corridors includes the following:

- Optimisation of the Beroun – Zbiroh line
- Optimisation of the Stříbro – Planá u Mariánských Lázní
- Bystřice nad Olší – Český Těšín.

Remaining optimisation projects:

- Zbiroh – Rokycany
- Mosty u Jablunkova – Bystřice nad Olší
- larger part is activated, but it will be completed in the next period.

Other completed projects:

- Rationalization of the Svitavy – Žďárec u Skutče line
- Significant projects DOZ CDP Přerov and DOZ Střelice – Hrušovany.

Furthermore the capacities of the installation plants were concentrated on other SŽDC investment projects of the modernisation, reconstruction and also repair works, which are very important for safety improvement. In terms of a volume these individual projects are less significant, but for railway safety are very important, i.e. they ensure the railway crossing safety at all levels of crossings with roads. Upgrading the level crossing systems and other equipment by signalling for blinds becomes a default accessory of our projects. In this fiscal year over 11 projects were completed or partially complete and works at other projects are currently underway.

In terms of foreign installation activities there was seen the greatest success in Belarus and Lithuania. However, work continued also in other destinations, such as the Slovak Republic, Turkey, Greece, Syria, Serbia and the USA. In addition, the preparations for the completion of the Podgorica – Niksic project in Montenegro, which is largely activated, were in progress.

In the foreign installation activities it is necessary to ensure good coordination of design work and respective manufacturing with final installation and activation. All units of the process must be involved in the project inner life including our development base, which is an integral part of the process for successful completion of the project.

The total list of implemented projects including an overview of the number of activated main technical units for the 10/2010-09/2011 period are given in the following Table.

The total number of implemented projects for fiscal period 2010/2011				
Period	**Project identification**	**PS**	**Activation**	**Note**
4/Q–2010				
	Reconstruction of LX in km 27,285 Luková			
	LX km 27,285		10/21/2010	PZZ-EAV
	Reconstruction of LX in km 44,176 Ohnišťany			
	LX in km 44,176		10/14/2010	PZZ-EAV
	Racionalization of line Svitavy – Žďárec u Skutče			
	Station Žďárec u Skutče, interlocking	1117	11/26/2010	ESA 33
	Žďárec – Skuteč, line signalling	1126	11/26/2010	AHP 03
	Station Skuteč, interlocking	1116	11/26/2010	ESA 33
	Skuteč – Čachnov line signalling	1125	11/26/2010	AHP 03
	Station Čachnov, interlocking	1115	11/12/2010	ESA 33
	Čachnov – Borová, line signalling	1124	11/12/2010	AHP 03
	Station Borová, interlocking	1114	11/12/2010	ESA 33
	Borová – Polička, line signalling	1123	11/12/2010	AHP 03
	Station Polička, interlocking	1113	11/8/2010	ESA 33
	Polička – Květná, line signalling	1122	11/8/2010	AHP 03
	Station Květná, interlocking	1112	11/8/2010	ESA 33
	Květná – Svitavy, line signalling	1121	11/8/2010	AHP 03
	Station Svitavy, interface to CTC	1111	11/8/2010	DOZ - 1
	CTC Střelice – Hrušovany nad Jevišovkou, Stage I.			
	Station Moravské Bránice, interlocking	15111.1	12/3/2010	ESA 33
	Silůvky – Moravské Bránice, line signalling		12/3/2010	AHP 03
	Station Ivančice, interlocking	42111.1	12/3/2010	ESA 33

	Moravský Brod – Mor. Krumlov, line signalling		12/3/2010	AHP 03
	Station Moravský Krumlov, interlocking	17111.1	12/3/2010	ESA 33
	Moravský Krumlov – Rakšice, line signalling		12/3/2010	AHP 03
	Reconstruction of Station Silůvky			
	Station Silůvky		12/3/2010	ESA 33
	Střelice – Silůvky	01A	12/3/2010	AHP 03
	Optimization of line Beroun – Zbiroh			
	Station Hořovice, temporary interlocking	19-21-01	12/2/2010	ESA 11
1/Q–2011				
	CDP Přerov			
	CDP – CTC Přerov – Polanka	11	1/13/2011	DOZ 1
	CDP – CTC Přerov – Břeclav	11	3/17/2011	DOZ 1
2/Q–2011				
	Reparation of interlocking in Station Roztoky u Prahy			
	Station Roztoky u Prahy, interlocking	1	4/3/2011	ESA 11
	Construction no. K69 of stations Vřesová			
	Station V2-V3	1	4/14/2011	ESA 11d
	Optimization of line Stříbro – Planá u Mariánských Lázní			
	Svojšín – Ošelín, line signalling	56-21-01	4/30/2011	ABE 1
	Station Ošelín, interlocking	57-21-01	4/30/2011	ESA 11
	Ošelín – Pavlovice, line signalling	58-21-01	4/30/2011	ABE 1
	Station Pavlovice, head station	59-21-01	4/30/2011	ESA 11
	Optimization of line Beroun – Zbiroh			
	Zdice – Hořovice, line signalling – def.	18-21-01	5/6/2011	ABE 1
	Station Hořovice, interlocking def.	19-21-01	5/6/2011	ESA 33

	Slovakia – ŽSR, Žilina – Teplička, marshalling yard, stage II.			
	Arrival group and transit	2001	5/6/2011	ESA 33
	Recostruction of Teplička interlocking – branching Váh	2002	6/10/2011	ESA 33
	Reconstruction of LX km 12,221, km 13,784, km 14,403 on line Železný Brod – Tanvald			
	LX km 12,221		5/27/2011	PZZ RE
	LX km 13,783		5/27/2011	PZZ AC
	LX km 14,403		5/27/2011	PZZ RE
	Reconstruction of LX km 170,153 on line Chomutov – Cheb			
	LX km 170,153		5/31/2011	PZZ EA
	Restoration of LX km 53,013 (Vysokov) on line Týniště nad Orlicí – Meziměstí			
	LX km 53,013		6/30/2011	PZZ EAV
3/Q–2011				
	Optimization of line Bystřice nad Olší – Český Těšín			
	Station Třinec, interlocking	22-28-01	7/12/2011	ESA 33
	Restoration of LX km 23,823 (Březno) on line Mladá Boleslav město – Dolní Bousov			
	LX km 23,823		7/29/2011	PZZ EAV
	Belarus - Station Novopolock, interlocking			
	Station Novopolock, Park TSB, interlocking	2	8/3/2011	ESA 11
	Restoration of LX km 103,907 (Prosečné) on line Turnov hl. n. – Chlumec nad Cidlinou			
	LX km 103,907		8/4/2011	EAV 11

	Optimization of line Zbiroh – Rokycany			
	Station Kařízek, interlocking	25-21-01	8/12/2011	ESA 33
	Kařízek – Holoubkov, line signalling	26-21-01	8/16/2011	ABE 1
	Station Holoubkov, interlocking	27-21-01	8/16/2011	ESA 33
	Reconstruction of LX P6510 km 273,988 line Bohumin – Přerov		8/19/2011	PZZ EA
	Holoubkov – Rokycany, line signalling	28-21-01	8/25/2011	ABE 1
	Station Rokycany, interlocking	29-21-01	8/25/2011	ESA 33
	Rokycany – Mirošov, line signalling	29-21-02	8/25/2011	AHP 03
	Reconstruction of line Červená - Milevsko LX km 29,482			
	LX km 29,482		9/16/2011	PZZ RE
	Reconstruction of line Červená – Milevsko LX km 37,360			
	LX km 37,360		9/16/2011	PZZ RE
	Belarus – Station Novopolock, interlocking			
	Station Novopolock, interlocking	1	9/30/2011	ESA 11

DST BRNO

The implementing part of technology supply, traffic control on roads and applications in the field of road telematics is the Division of Road Technology Automation. Its activity focuses on the production, installation, maintenance and servicing of such systems. DST Brno design activities are a significant part of this division including engineering, operation development and advisory activity as a part of the commercial section of the road telematics strategy on the traffic technology market.

One of the most important contracts of the entire 2010/2011 fiscal year was the first stage of implementation of information system and continuous control of the highway in Azerbaijan. This was the first contract implemented in this Asian country.

Throughout the business year implementation of long-term contracts were in progress. One of them is the share of service work and maintenance of the performance-based toll collection system (electronic toll) for selected freeway parts, high speed roads and class I. roads of the Czech Republic. The other is the service of the information system connected to ZPI (equipment for operational information) and PDZ (variable traffic signs) on the D1 expressway. The newest long-term project is the restoration, operation and maintenance of public lighting and traffic signal lights devices in Boskovice town.

At the same time this Division also continuously provides servicing and maintenance of technologies of its own production which are mainly signal light controllers (SSZ), parking systems, technology of the freeway tunnel Valík at the bypass of the Plzeň city and video camera systems for measuring block to block speed and passing on red light or the signalling system of the Březno railway tunnel near Chomutov. In the past year other traffic intersections and development of the Malovanka tunnel under the Project Praha successfully passed into operation. Also the project works of technology supply for the Blanka tunnel complex continued.

New intersections with traffic light were installed in new commercial centers in Modřany and Černý Most in Prague. Another new Prague intersection was developed at the exit of the tramway loop at the newly extended tram line in Podbaba. Here, the Division also participated in the delivery of a modern information system for passengers.

To increase the pedestrian safety additional pedestrian crossings were fitted with LED lights embedded into the pavement in the Prague street „V Olšinách" and two pedestrian crossings in Most.

With installations of own special technologies adjusted for use at children's traffic playgrounds in the Czech Republic, DST Brno contributes to highway accident prevention. Last year, additional children's traffic playgrounds were equipped with these technologies, this time in Štětkovice and in Žamberk.

Significant completed projects:

- Share on service activities and maintenance of electronic toll system of selected highway sections, expressways and the 1st Class roads throughout the Czech Republic.
- Service activities of information system coupled with ZPI and PDZ on highway D1
- Information system and the continuous control system of the highway in Azerbaijan
- Restoration, operation and maintenance of the public lighting in Boskovice
- Design, engineering, renewal and installation of light signalling equipment (SSZ) and dynamic coordination of intersections within their renewal and development under Project Praha (Ječná × Legerova, Ječná × Sokolská, Vinohradská × Jana Želivského)
- Installation of SSZ at Blanka tunnel complex
- Management and maintenance of the Jihlava tunnel
- Construction of intersections with SSZ in Orlová and Třinec.

DIVISION OF TELECOMMUNICATION AND SIGNALLING TECHNOLOGY SERVICE

The Division of Telecommunication and Signalling Technology Service is a separate unit the main task of which is providing service activities for the installed telecommunication and signalling systems.

It performs services resulting from the responsibility for equipment failures during the warranty period (warranty service) and also post warranty service and maintenance for the telecommunication, signalling and information equipment.

As a priority the Division provides servicing of the modernised technological units, in particular the electronic station interlocking systems the line signalling and level crossing systems, remote control systems including servicing of points and barrier program of AŽD Praha.

The Division provides service of the SŽDC network at 315 station interlocking equipment, 1 031 level crossing systems, 102 line sections of electronic automatic block, additional 106 line signalling equipment (automatic line block systems and reconstructed automatic blocs), at remote control equipment and related telecommunication and information equipment. In addition the Service Division provides service and maintenance for the line signalling system of the "Vřesinská – Zátiší" tram line. The service is also provided for METRO – Public Transport Operator of the City Prague (repairs of the 3rd stage on the IV.C1 line and the automatic train control system). The Division also provides service of the compensators of dangerous currents at train sets of 680 series (Pendolino).

Also the methodological guidance and supervision service is rendered for systems supplied by AŽD Praha to Belarus, Serbia, Montenegro, Greece and Turkey. In case of complicated defect the problem is solved directly by the visit of Division of Telecommunication and Signalling Technology Service employee.

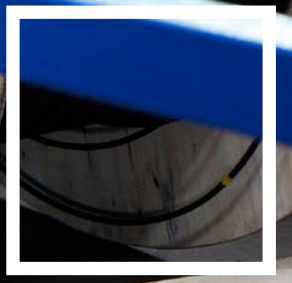
The service activities have been carried out by service groups and workplaces located in the cities in Ústí nad Labem, Karlovy Vary, Prague, České Budějovice, Kolín, Pardubice, Olomouc, Brno, Břeclav, Ostrava and Plzeň. Warranty service in the Slovak Republic is provided by organisational unit Bratislava through the service group located in Poprad-Matejovce.

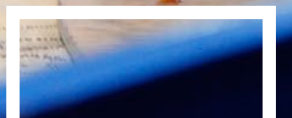
Selected groups of the Division provide comprehensive support for the operation of the GNT application with the 24/7 availability regime. Division provides remote administration, hotline and helpdesk of operational GNT (graphic-technological overlay of the signalling system). In total there are more than 130 GPC computers in the Czech Republic and the Slovak Republic.

The maintenance department SZT provides the maintenance of telecommunication and signalling technologies in service centers Skalice, Svitavy (for Brno – Česká Třebová line) and Moravský Písek (for Hodonín – Nedakonice line section).

The warranty service is provided continuously 24 hours a day and 365 days a year according to the emergency needs.

LOGISTIC PLANT OLOMOUC





Logistic Plant Olomouc covers an area of 44,460 square meters and the total area of heated halls is 6,370 square meters. Along with own road transport the plant is a logistics centre of the company. Services related to purchase, storage, sale, distribution etc. are provided not only for all plants and organizational units of the company, but also for subsidiaries in the Czech Republic as well as abroad and for other business partners. A convenient location predestines the plant to hold emergency reserves for accidents and unexpected events. The original system storage stackers from the seventies are gradually replaced by modern, efficient, computer-controlled technology to help make our work accurate and effective. The factory area is also consignment storage for telecommunication and signalling which is one of the largest in the Czech and Slovak Republics.

Last year, which was significantly influenced by the ongoing economic crisis and pressure on saving of public sector in the Czech Republic, material in the total volume of CZK 1 823 million passed through our storage, of which for our plants in the volume of CZK 775 million and material for customers abroad (including foreign supplies) amounted to CZK 1 048 million.

With the transfer of corporate activities outside the Czech Republic, demands for logistics are increasing but the basic idea to deliver goods on time and to the right place, remains. Last year we provided all deliveries to Slovakia for the construction of the V. railway corridor Nove Mesto nad Vahom – Zlatovce and Trencianská Teplá – Beluša through our own trucking; also deliveries for marshalling yard Žilina – Teplička and for the project of the VI. railway corridor Žilina – Krásno nad Kysucou were completed. Deliveries to Lithuania for the Kaunas – Kybartai project, to Serbia and Montenegro continued. In cooperation with external carriers the goods and materials were delivered to Belarus for the Polock-Vitebsk line section and to Malaysia.

The Logistic Plant also participated in a significant way to the ongoing restructuring of the company. During the year activity of the Production Plant Praha ended and the newly established Production Workplace Praha with its staff was transferred to the Logistic Plant. In terms of accounting any remaining material, intermediate products and finished products were transferred and physically stored in Olomouc for further use. All problems associated with the transfer of production programs to two other production plants and related changes in material and document supply the Logistic Plant employees managed through personal initiative during the normal operation.

At the same time the first part of the supply centralization and warehousing services within AŽD Praha have been completed. Warehouses of the Production Plant Olomouc were incorporated under the Logistic Plant Olomouc including their employees and simultaneously the number of jobs in the Logistic Plant and the Production Plant was reduced. In the Production Plant Olomouc storage areas adaptation of storage sites were made, open area was partially roofed, and changes in the supply of materials for production were gradually introduced.

Although the global economic decline was reflected in the reduction of required volume for supplies and in increase of demands on services where emphasise on speed and quality of service was much greater, the Logistic Plant managed to meet all challenges of the last year and to compete in the ever-increasing competition.

AŽD PRAHA, EU AND INTERNATIONAL COOPERATION

In the past year, AŽD Praha continued in the active involvement in and monitoring of the technical and legislative process within the framework of the EU in the field of railway security equipment and railway transport in general. We are capable of influencing many such processes thanks to our experts who work directly in selected working expert groups preparing the legislation of technical standards and specifications. Specifications created in the EU bodies and subsequently adopted as legally binding in the EU member countries very often specify the activities and functionality of equipment and products developed and delivered by AŽD. This active approach of our company has several effects:

- the involvement in the standardization process has saved significant funds for our own technical development, since we respond to the planned changes either by comments or timely adjustments of our systems,

- our company is known as a reliable supplier caring for the technical development in its field of business,

- our experts cooperate with experts from competitive companies, with representatives of railways as well as of European authorities and jointly deepen the knowledge in their fields of business.

In the past period, basic technical interoperability directives (TID) were reviewed within the framework of the European Union. The TID that is the most important for our company – CCS subsystem "Control and Security" – newly resolves the requirements for the electromagnetic compatibility and for general cooperation of the subsystems vehicle and signaling equipment. Unfortunately, certain issues have remained unresolved and therefore new driving vehicles used for the railway infrastructure may not always be compatible. UNISIG and ERA are completing changes to the ERTMS system specifications and issue of Baseline 3 ETCS is planned for April 2012.

The above-mentioned activities have been provided in cooperation with the Union of European Railway Industries (UNIFE) having its registered office in Brussels, which is a very important partner of the European Commission in the field of the railway traffic. Cooperation also takes place

with individual manufacturers in the field of the railway industry. AŽD Praha is a long-term member of UNIFE as well as the Czech Association of Railway Enterprises (ACRI) and an important member of the national Technological Platform "Interoperability of the Railway Infrastructure". The importance of the cooperating world-wide Railway Federation (UIC) having its registered office in Paris is currently lower for Europe due to its world-wide focus, but despite this we have remained a partner of the cited federation in particular in the field of railway research.

2011 was the year when we closed AŽD's permanent office in Brussels, since the main planned objectives have been fulfilled. The more than three-year operation of this office allowed us to penetrate into new fields and the cooperation commenced within the framework of the activities of the office have been further developed. The involvement of AŽD's expert into professional, standard-creating and legislative activities is profound. The most recent great success achieved within the framework of the permanent office was the establishment of the association Rail Forum Europe, which consists of deputies of the European Parliament and in which committees concerning the railway transport are represented. The task of the Forum is to create a discussion platform aimed at improving the understanding of the railway transport issues and making easier the cooperation in development of joint strategies and initiatives between deputies of the EU Parliament and the railway transport. The chairman of the parliamentary transport committee Mr. Simpson said: "The Rail Forum Europe should increase the visibility of the railway transport among the authors of EU policies and help the railway to play a decisive role in the EU's transport policy."

Our cooperation within the framework of UNISIG continues, where we, together with the other members of this consortium, are creating a specification of the ERTMS/ETCS system. The concept of the ERTMS/ETCS system has successfully conquered the whole world and more than a half of the installations of the ETCS system have been carried out outside the European continent. The ERTMS concept has thus got outside Europe and must be opened for non-European customers. ETCS's Steering Committee in UNIFE and the consortium UNISIG have come with a new approach, where the European "E" in the abbreviation

ERTMS will be replaced by the global “G”. The superstructure GRTMS will contribute to extending the functionality which opens a way to new markets.

Our experts working for individual organisations, commissions and research projects spread the good reputation of AŽD and strengthen our position as the major supplier of transport signalling, telecommunications, controlling and automating equipment in the Czech Republic and as an important European supplier of such systems.

FINANCIAL PERFORMANCE

The fiscal year 2010/2011 was significantly affected by the world-wide economic crisis. AŽD's management reacted to such situation and eliminated decisive negative influences and continued in the results achieved in the previous years.

AŽD's commercial turnover in the amount of CZK 3.6 billion generated in the fiscal year 2010/2011 is lower in comparison with the previous periods as a result of the limitation of construction works. AŽD Praha has compensated the decrease of the volume of construction works in the Czech Republic by entry to foreign markets, where our technology has been successfully placed. However, signaling systems must be adjusted for each foreign locality in terms of local laws and transport regulations and most start from the already operated technical equipment and practices, including controlling in the language in question. In certain countries, the whole signaling system must undergo a new local approval process. The entry to foreign markets is therefore significantly demanding as regards technology, trade and time, but contributes to AŽD's long-term stabilization and prosperity.

AŽD Praha has responded to the decrease of the volume of construction works by decreasing the working capacity by the controlled reducing of the number of AŽD Praha employees to 1,557 (–197). As a result of the winding up of the manufacturing plant in Prague, the production has been transferred to the manufacturing plants in Olomouc and Brno, whereby the utilization of their capacities has improved.

AŽD Praha spent CZK 217 million for the research and development in the period monitored.

The composition of assets has been significantly affected by receivables, the majority of which are within the maturity period, since the conditions in most orders set forth a long maturity period for invoices. By the distribution of the maturity of individual parts of performed works set forth in contracts, AŽD supports the sales, especially in the case of foreign orders. Reported receivables are gainful and paid within the due dates.

In the assessed period, AŽD Praha reported non-tax deductible reserves for a new generation of electronic signaling systems, which are undergoing a long-term testing operation and for which AŽD Praha has confirmed five-year guarantees.

The situation in AŽD's financing has been stabilized, where the turnover has been appropriately reflected in trade debtor accounts and drawing on bank loans.

AŽD Praha has not acquired any assets through financial lease and has no due liabilities arising from the health and social insurance as well as no tax arrears of payment.

AŽD Praha has established organizational unit in the Slovak Republic and Montenegro.

AŽD Praha has gained controlling and substantial interests in ten subsidiaries in the Czech Republic and in seven subsidiaries in foreign countries (three in Slovakia and one in Belarus, Bulgaria, Serbia and the USA).

MAIN FINANCIAL INDICATORS OF AŽD PRAGUE S.R.O

For business year 2010/2011 – from 1. 10. 2010 till 30. 9. 2011

Company accounting period is always from 1.10. till 30. 9. of subsequent year

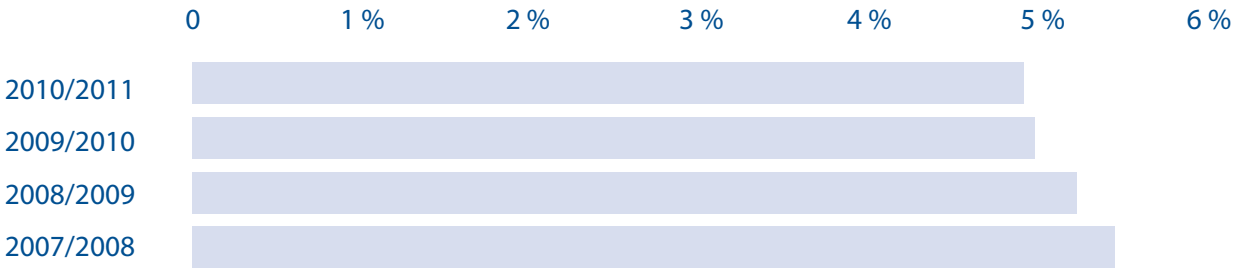
Indicator/period	2007/2008	2008/2009	2009/2010	**2010/2011**
Turnover in thous. CZK	5 622 130	5 280 867	4 339 761	**3 695 308**
Profit after tax	304 656	275 148	216 790	**184 408**
Profit from turnover %	5,41	5,21	5,00	**4,99**
Value added tax	1 296 396	1 378 281	1 187 573	**992 579**
Bank loans	1 598 526	1 104 031	824 323	**672 808**
Employees-full time equivalent	1 835	1 867	1 754	**1 557**

Company turnover / Employees – full time equivalent

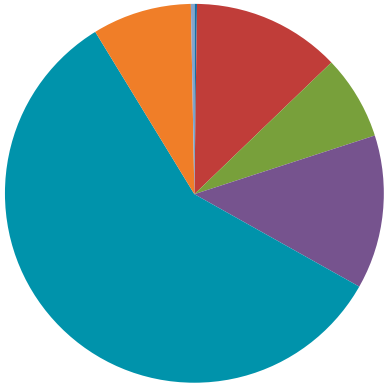
Indicator/period	2007/2008	2008/2009	2009/2010	**2010/2011**
Turnover in mill. CZK	5 622	5 281	4 340	**3 695**
Employees-full time equivalent	1 835	1 867	1 754	**1 557**

Profit from turnover

Indicator/period	2007/2008	2008/2009	2009/2010	**2010/2011**
Profit from turnover %	5,41	5,21	5,00	**4,99**

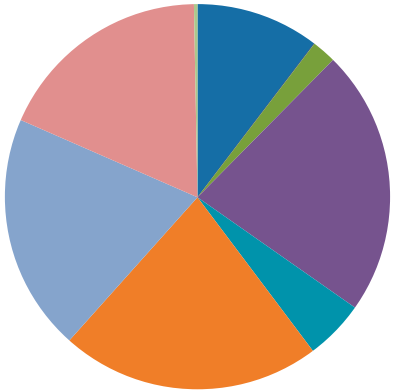


COMPOSITION OF ASSETS AS AT SEP. 30, 2011 (in thousand CZK)



Long-term intangible fixed assets	10 050
Long-term tangible fixed assets	466 469
Long-term financial assets	265 317
Inventories	484 514
Receivables	2 155 237
Financial assets	311 545
Accruals	10 029
Assets total	**3 703 161**

COMPOSITION OF LIABILITIES AS AT SEP. 30, 2011 (in thousand CZK)



Registered capital	384 436
Capital funds	–568
Funds from profit	75 692
Retained earnings from previous years	828 370
Profit of 2009/2010	184 408
Reserves	813 658
Liabilities	743 345
Bank loans and other creditors	672 808
Accruals	1 012
Liabilities total	**3 703 161**

BALANCE SHEET

as at 30. 9. 2011 (in thousands of Czech Crowns)

Identif. a			ASSETS b	Row c	Current accounting period			Previous period
					Gross 1	Adjustment 2	**Net 3**	Net 4
			TOTAL ASSETS (r. 02 + 03 + 31 + 62)	001	4 445 876	742 715	**3 703 161**	4 003 620
A.			Receivables from subscriptions	002				
B.			Fixed assets (r. 04 + 13 + 23)	003	1 428 985	687 149	**741 836**	973 916
B.	I.		**Intangible fixed assets (r. 05 to 12)**	004	86 824	76 774	**10 050**	5 617
B.	I.	1	Incorporation expenses	005				
		2	Research and development	006				
		3	Software	007	81 751	72 579	**9 172**	4 393
		4	Valuable rights	008	4 684	3 893	**791**	1 072
		5	Goodwill (+/–)	009				
		6	Other intangible fixed assets	010	389	302	**87**	152
		7	Intangible fixed assets under construction	011				
		8	Advance payments for intangible fixed assets	012				
B.	II.		**Tangible fixed assets (r. 14 to 22)**	013	1 042 178	575 709	**466 469**	514 259
B.	II.	1	Lands	014	100 979		**100 979**	100 979
		2	Constructions	015	459 278	190 420	**268 858**	281 697
		3	Equipment	016	671 859	576 657	**95 202**	128 377
		4	Perennial corps	017				
		5	Breeding and draught animals	018				
		6	Other tangible fixed assets	019				

Identif. a			ASSETS b	Row c	Current accounting period			Previous period
					Gross 1	Adjustment 2	**Net 3**	Net 4
		7	Tangible fixed assets under construction	020	1 430		**1 430**	3 206
		8	Advance payments for tangible fixed assets	021				
		9	Adjustment to acquired assets	022	–191 368	–191 368		
B.	III.		**Long-term financial assets (r. 24 to 30)**	023	299 983	34 666	**265 317**	454 040
B.	III.	1	Shares in controlled and managed oranizations	024	161 858	34 666	**127 192**	59 373
		2	Shares in accounting units with substantial influence	025	29 800		**29 800**	22 427
		3	Other securities and shares	026	100 255		**100 255**	100 255
		4	Loans to controlled and managed organizations and to accounting unit with substantial influence	027	8 070		**8 070**	271 985
		5	Other financial investments	028				
		6	Financial investments acquired	029				
		7	Advance payments for long-term financial assets	030				
C.			**Current assets (r. 32 + 39 + 47 + 57)**	031	3 006 862	55 566	**2 951 296**	3 010 406
C.	I.		**Inventory (r. 33 to 38)**	032	488 327	3 813	**484 514**	587 336
C.	I.	1	Materials	033	315 526		**315 526**	315 435
		2	Work in progress and semi-products	034	168 060	3 813	**164 247**	270 426
		3	Finished products	035				
		4	Animals	036				
		5	Merchandise	037				
		6	Advance payments for inventory	038	4 741		**4 741**	1 475
C.	II.		**Long-term receivables (r. 40 to 46)**	039	619 815		**619 815**	653 621
C.	II.	1	Trade receivables	040	469 654		**469 654**	501 102
		2	Receivables from controlled and managed organizations	041				
		3	Receivables from accounting units with substantial influence	042				

Identif. a		ASSETS b	Row c	Current accounting period			Previous period
				Gross 1	Adjustment 2	**Net 3**	Net 4
	4	Receivables from partners, cooperative members and association members	043				
	5	Estimated receivable	044				
	6	Long-term deposits given	044a	1 157		**1 157**	1 237
	7	Other receivables	045				
	8	Deffered tax receivable	046	149 004		**149 004**	151 282
C.	III.	**Short-term receivables (r. 48 to 56)**	047	1 587 175	51 753	**1 535 422**	1 567 313
C.	III. 1	Trade receivables	048	1 311 249	51 753	**1 259 496**	1 489 254
	2	Receivables from controlled and managed organizations	049	226 210		**226 210**	41 362
	3	Receivables from accounting units with substantial influence	050				
	4	Receivables from partners, cooperative members and association members	051				
	5	Receivables from social security and health insurance	052				
	6	Due from state – tax receivable	053	35 847		**35 847**	21 170
	7	Other deposits given	054	7 924		**7 924**	6 118
	8	Estimated receivable	055	3 027		**3 027**	4 755
	9	Other receivables	056	2 918		**2 918**	4 654
C.	IV.	**Short-term financial assets (r. 58 to 61)**	057	311 545		**311 545**	202 136
C.	IV. 1	Cash	058	3 765		**3 765**	6 776
	2	Bank accounts	059	307 780		**307 780**	195 360
	3	Short-term securities and ownership interests	060				
	4	Short-term financial assets acquired	061				

Identif. a			ASSETS b	Row c	Current accounting period			Previous period
					Gross 1	Adjustment 2	**Net 3**	Net 4
D.	I.		**Accruals (r. 63 to 65)**	062	10 029		**10 029**	19 298
D.	I.	1	Deferred expenses	063	10 028		**10 028**	19 286
		2	Complex deferred costs	064				
		3	Deferred income	065	1		**1**	12

Označení a			Liabilities b	Row c	**Current period 5**	Previous period 6
			TOTAL LIABILITIES (r. 67 + 84 + 117)	066	**3 703 161**	4 003 620
A.			**Equity (r. 68 + 72 + 77 + 80 + 83)**	067	**1 472 338**	1 471 783
A.	I.		**Registered capital (r. 69 to 71)**	068	**384 436**	384 436
		1	Registered capital	069	**384 436**	384 436
		2	Company´s own shares and ownership interests (-)	070		
		3	Changes of registered capital	071		
A.	II.		**Capital funds (r. 73 to 76)**	072	**–568**	–1 675
A.	II.	1	Share premium	073		
		2	Other capital funds	074	**376**	376
		3	Diferences from revaluation of assets and liabilities	075	**–944**	–2 051
		4	Diferences from revaluation in tranformation	076		
A.	III.		**Reserve funds, statutory reserve account for cooperatives, and other retained earnings (r. 78 + 79)**	077	**75 692**	75 522

Označení a			Liabilities b	Row c	**Current period 5**	Previous period 6
A.	III.	1	Legal reserve fund / indivisible fund	078	**73 732**	73 732
		3	Statutory and other funds	079	**1 960**	1 790
A.	IV.		**Profit/loss – previous year (r. 81 + 82)**	080	**828 370**	796 710
A.	IV.	1	Retained earnings from previous years	081	**828 370**	796 710
		2	Accumulated losses from previous years	082		
A.	V.		**Profit / loss – current year (+/–) /r.01 – (+ 68 + 72 + 77 + 80 + 84 + 117)/**	083	**184 408**	216 790
B.			Other sources (r. 85 + 90 + 101 + 113)	084	**2 229 811**	2 479 433
B.	I.		**Reserves (r. 86 to 89)**	085	**813 658**	838 200
B.	I.	1	Reserves under special statutory regulations	086	**940**	7 166
		2	Reserves for pension and similar payables	087		
		3	Income tax reserves	088		
		4	Other reserves	089	**812 718**	831 034
B.	II.		**Long-term payables (r. 91 to 100)**	090	**21 470**	7 412
B.	II.	1	Trade payables	091	**21 470**	7 412
		2	Payables to controlled and managed organizations	092		
		3	Payables to accounting units with substantial influence	093		
		4	Payables from partners, cooperative members and association members	094		
		5	Long-term advances received	095		
		6	Issues bonds	096		
		7	Long-term notes payables	097		
		8	Estimated payables	098		
		9	Other payables	099		
		10	Deffered tax liability	100		

Označení a			Liabilities b	Row c	**Current period 5**	Previous period 6
B.	III.		**Short-term payables (r. 102 to 112)**	101	**721 875**	809 498
B.	III.	1	Trade payables	102	**403 722**	582 004
		2	Payables to controlled and managed organizations	103		
		3	Payables to accounting units with substantial influence	104		
		4	Payables from partners, cooperative members and association members	105	**52 020**	20
		5	Payroll	106	**61 397**	118 992
		6	Payables to social securities and health insurance	107	**37 389**	22 170
		7	Due from state – tax liabilities and subsidies	108	**30 106**	21 257
		8	Short-term deposits received	109	**29 985**	33 273
		9	Issues bonds	110		
		10	Estimated payables	111	**107 249**	30 157
		11	Other payables	112	**7**	1 625
B.	IV.		**Bank loans and financial accomodations (r. 114 to 116)**	113	**672 808**	824 323
B.	IV.	1	Long-term bank loans	114		
		2	Short-term bank loans	115	**672 808**	824 323
		3	Short-term accomodations	116		
C.	I.		**Accruals (r. 118 + 119)**	117	**1 012**	52 404
C.	I.	1	Accrued expenses	118	**250**	21 020
		2	Deffered revenues	119	**762**	31 384

PROFIT/LOSS ACCOUNT

as at 30. 9. 2011 (in thousands of Czech Crowns)

Identif. a		TEXT b	Row c	Fiscal period	
				Current 1	Previous 2
	I.	Revenues from sold goods	01	**371 504**	430 740
A.		Expenses on sold goods	02	**327 118**	375 174
	+	**Sale margin (r. 01 – 02)**	03	**44 386**	55 566
	II.	**Production (r. 05 + 06 + 07)**	04	**3 540 123**	4 289 995
	II. 1	Revenues from own products and services	05	**3 133 475**	3 545 630
	2	Change in inventory of own products	06	**–106 207**	–6 075
	3	Capitalisation	07	**512 855**	750 440
B.		**Production consumption (r. 09 +10)**	08	**2 591 930**	3 157 988
B.	1	Consumption of material and energy	09	**2 244 464**	2 831 200
B.	2	Services	10	**347 466**	326 788
	+	**Added value (r. 03 + 04 – 08)**	11	**992 579**	1 187 573
C.		**Personnel expenses**	12	**812 058**	845 805
C.	1	Wages and salaries	13	**601 420**	631 202
C.	2	Renumeration of board members	14		
C.	3	Social security expenses and health insurance	15	**207 986**	211 610
C.	4	Other social expenses	16	**2 652**	2 993
D.		Taxes and fees	17	**4 273**	4 508
E.		Depreciations of intangible and tangible assets	18	**76 819**	89 941

Identif. a	TEXT b	Row c	Fiscal period	
			Current 1	Previous 2
III.	**Revenues from disposals of fixed assets and materials (r. 20 + 21)**	19	**209 923**	260 998
III. 1	Revenues from disposals of fixed assets	20	**10 623**	6 614
2	Revenues from disposals of materials	21	**199 300**	254 384
F.	**Net book value of diposed fixed assets and materials (r. 23 + 24)**	22	**141 565**	162 796
F. 1	Net book value of sold fixed assets	23	**9 525**	3 452
F. 2	Net book value of sold material	24	**132 040**	159 344
G.	Change in operating reserves and adjustments and complex deferred costs (+/–)	25	**–56 029**	–22 172
IV.	Other operating revenues	26	**30 524**	57 586
H.	Other operating expenses	27	**36 632**	110 553
V.	Transfer of operating revenues	28		
I.	Transfer of operating expenses	29		
*	**Operating profit / loss /(r. 11 – 12 –17 – 18 + 19 – 22 – 25 + 26 – 27 – 28) – (–29)/**	30	**217 708**	314 726
VI	Revenues from sales of securities and ownership interests	31		
J.	Sold securities and ownership interests	32		
VII.	**Revenues from long-term financial assets (ř. 34 + 35 + 36)**	33	**28 794**	25 697
VII. 1	Revenues from shares in controlled and managed organizations and in accounting units with subsantial influence	34	**27 774**	25 697
VII. 2	Revenues from others securities and ownership interests	35	**1 020**	
VII. 3	Revenues from other long-term financial assets	36		
VIII.	Revenues from short-term financial assets	37		
K.	Expenses associated with financial assets	38		
IX.	Revenues from revaluation of securities and derivatives	39		

Identif. a	TEXT b	Row c	Fiscal period	
			Current 1	Previous 2
L.	Cost of revaluation of securities and derivatives	40		
M.	Change in financial reserves and adjustments	41	**1 879**	14 367
X.	Interest revenues	42	**7 246**	8 143
N.	Interest expenses	43	**13 625**	22 426
XI.	Other financial revenues	44	**20 049**	17 042
O.	Other financial expenses	45	**53 918**	60 917
XII.	Transfer of financial revenues	46		
P.	Transfer of financial expenses	47		
*	**Profit / loss from financial operations (transactions) /(ř. 31 – 32 + 33 + 37 – 38 + 39 – 40 – 41 + 42 – 43 + 44 – 45 – (–46) + (–47))/**	48	**–13 333**	–46 828
Q.	**Income tax on ordinary income (ř. 50 + 51)**	49	**19 967**	51 108
Q. 1	Due tax	50	**17 690**	39 308
Q. 2	Tax deferred	51	**2 277**	11 800
**	**Operating profit / loss ordinary activity (ř. 30 + 48 – 49)**	52	**184 408**	216 790
XIII.	Extraordinery revenues	53		
R.	Extraordinery expenses	54		
S.	**Income tax on extraordinery income (ř. 56 + 57)**	55		
S. 1	Due tax	56		
S. 2	Tax deferred	57		
*	**Operating profit/loss extraordinary activity (ř. 53 – 54 – 55)**	58		
T.	Trasfer profit (loss) to partners (+/–)	59		
***	Profit/loss of current accounting period (+/–) (ř. 52 + 58 – 59)	60	**184 408**	216 790
	Profit / loss before tax (+/–) (ř. 30 + 48 + 53 – 54)	61	**204 375**	267 898

AUDITOR'S REPORT
AND SUPERVISORY BOARD'S ANNUAL REPORT

AUDITOR'S REPORT ON VERIFICATION OF THE FINAL ACCOUNTS FOR THE PERIOD FROM OCTOBER 1, 2010 TO SEPTEMBER 30, 2011

Commercial company:	AŽD Praha s.r.o.
Registered office:	Praha 10, Žirovnická 2/3146
Identification No. (IČO):	480 29 483
Subject of activities:	Development, production, design, construction, servicing, consulting and engineering of telecommunication, signalling and automation systems - trade conducted by industrial methods

We have verified the attached final accounts of the AŽD Praha s.r.o. company, i.e. balance sheet as at September 30, 2011, profit and loss statement for fiscal year ending on September 30, 2011, summary of changes to the equity capital and cash flow summary for the fiscal year ending on September 30, 2011, and the annex to these final accounts including a description of accounting methods applied and other explanatory information. Further data and information on AŽD Praha s.r.o. are stated in the annex to these final accounts.

Responsibility of the statutory body of the accounting entity for the final accounts

The statutory body of AŽD Praha s.r.o. is responsible for compilation and true view of the final accounts in compliance with the Czech accounting regulations and for procurement of necessary internal inspection system to avoid any significant (material) inaccuracies caused by fraud or error.

Auditor's responsibility

Our task is to provide an opinion concerning these final accounts on the basis of the audit performed. We have performed the audit in compliance with the Auditor's Act, International Auditor's Standards and related application clauses of the Chamber of Auditors of the Czech Republic. In compliance with the cited regulations, we are obliged to adhere to the ethic standards and to plan and perform the audit to obtain reasonable certainty that the final accounts contain no significant (material) inaccuracies.

The audit includes performance of auditing procedures aimed at obtaining evidence on the amounts and facts stated in the final accounts. The selection of the auditing procedures depends on the auditor's judgement including an assessment of the risks for significant (material) inaccuracies in final accounts caused by fraud or error. When assessing such risks, the auditor takes into consideration internal inspections which are relevant for compilation and true view of the final accounts. The objective of the internal inspections assessment is to propose appropriate auditing procedures, but not to comment on the effectiveness of internal inspections. The audit also includes an assessment of the suitability of the accounting methods used, reasonability of accounting estimates as well as assessment of the overall presentation of the final accounts. We truly believe that the obtained evidence provides sufficient and appropriate base for providing our statement.

Auditor's statement (Without objections):

Pursuant to our opinion, the final accounts of AŽD Praha s.r.o. provide a true and faithful image of the assets, liabilities and financial situation as at September 30, 2011, and of the expenses, revenues, business results, equity capital and cash flow achieved during the period ending on September 30, 2011 in compliance with Accounting Act and relevant regulations of the Czech Republic.

Auditing company
EKMA FIN, a.s.
Registered office: Ondříčkova 27/609, 130 00 Praha 3
Auditing company's certificate No.: 076
Report elaborated by: Ing. Jana Buková, auditor
Auditor's certificate No.: 1214

Date: December 16, 2011

Ing. Pavel Šrámek
CEO

EKMA FIN, a.s. KA ČR auditorské oprávnění 076

Ing. Jana Buková
auditor

SUPERVISORY BOARD'S ANNUAL REPORT BUSINESS RESULTS OF AŽD PRAHA S.R.O. FOR FISCAL YEAR 2010/2011

In the course of the whole fiscal period the Supervisory Board observed the generally binding regulations pursuant to provisions of Commercial Code, Partnership Deed and General Assembly resolutions.

At its regular meetings the Supervisory Board was informed about accepted intentions of Executive Plan, the company's business results, the company's financial situation, the organisational changes and company's activities implementation in inland and abroad.

The Supervisory Board acquainted itself with the auditor's statement prepared by EKMA FIN a.s.'s auditor Ing. Jana Buková dated December 16, 2011 and approved by the director of the Board Ing. Pavel Sramek.

The Auditor's statement is "Without objections" with classification:
Pursuant to our opinion, the final accounts of AŽD Praha s.r.o. provide a true and faithful image of the assets, liabilities and financial situation as at September 30, 2011, and of the expenses, revenues, business results and cash flow achieved during the period ending on September 30, 2011 in compliance with Accounting Act and relevant regulations of the Czech Republic.

The Supervisory Board of AŽD Praha s.r.o. reviewed Annual report and fully approves this report without any objections and comments. The Supervisory Board therefore advises the General Assembly to approve the final accounts including the profit distribution proposal for the cited fiscal period.

Daniela Veselá
Supervisory Board Chairman, AŽD Praha s.r.o.

In Prague, on January 31, 2012

MANDATORY APPENDICES:

ANNEX 1: Annex to AŽD Praha s.r.o. Final Accounts for 2010/2011
ANNEX 2: Cash Flow Summary
ANNEX 3: Summary of changes to Equity Capital for 2010/2011
ANNEX 4: Report on relations between Interconnected Persons pursuant to Paragraph 66a of the Commercial Code of the Czech Republic for the fiscal period 2010/2011

This Annual Report has been prepared pursuant to the applicable Accounting Act
and reflects the situation as at September 30, 2011.