REPORT ON BUSINESS ACTIVITIES AND RESULTS OF THE COMPANY AŽD PRAHA s.r.o. FOR THE FISCAL YEAR 2011/2012

1. 10. 2011 – 30. 9. 2012

AŽD PRAHA

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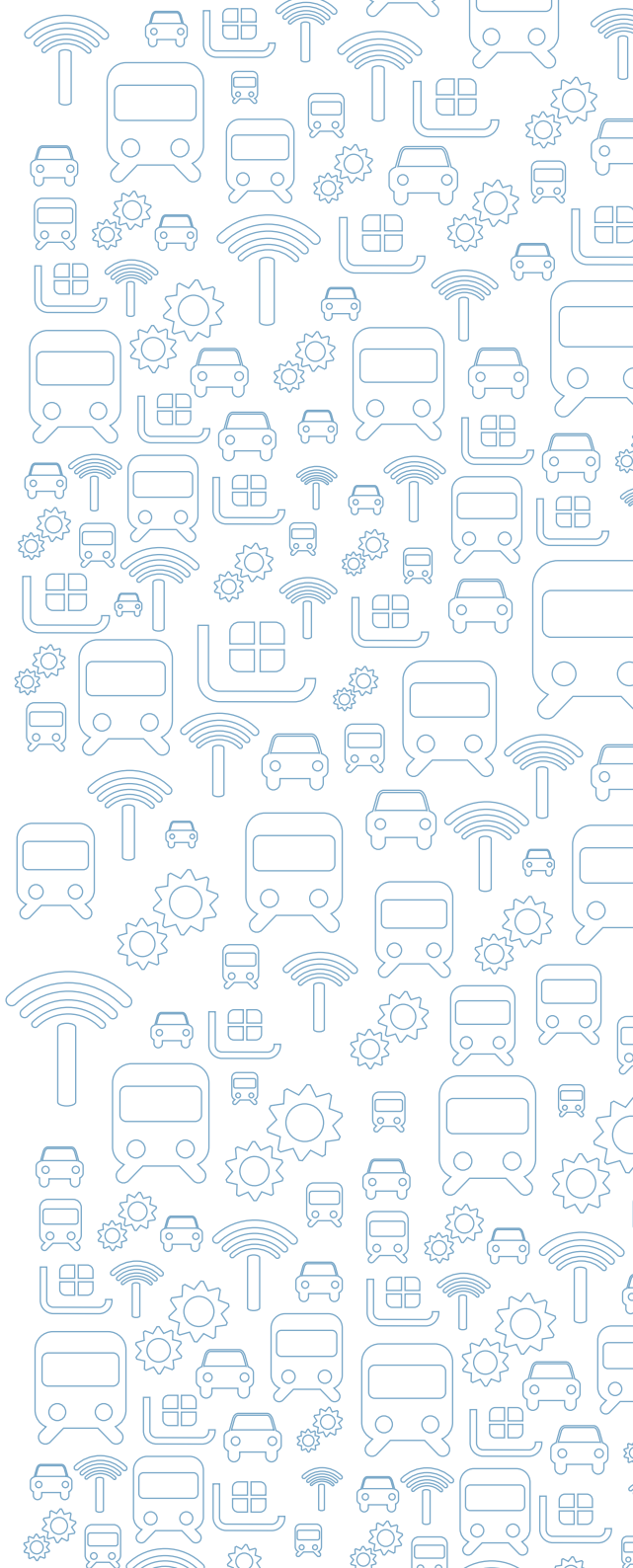


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GENERAL MANAGER'S FOREWORD

Dear Business Partners, Associates, Dear Friends,

You have in your hands annual report of our company AŽD Praha s.r.o. for the 2011/2012 financial year in commented, graphic and tabular part respectively. It is really difficult to present all particulars characterizing this year in relatively limited place dedicated to this report. The annual report evaluates the fiscal year according to valid laws and in an abrupt manner. So allow me in the introduction also rather short and clear evaluation – the company AŽD Praha has fulfilled its plans and intentions and we rank the 2011/2012 financial year among successful years.

However, when I evaluate this year from other point of view – from the view of the person who has a top responsibility for the company, I would say that this year was the most complicated and hardest one that I have ever experienced in my position. Therefore I would like to express thanks already now, contrary to previous reports, to all colleagues, co-owners, customers and friends for the work, support and confidence in the Czech company AŽD Praha, for their trust in its systems and products, for the confidence in its employees, in their abilities, efforts and responsibility. I thank you for even smallest demonstration of the support you showed. It is hugely motivating to feel the support at the negotiations, during the personal meetings or even at social networks. Securing the safety has always been very liable matter; responsibility for human lives, for transported load and increasingly for operability of railway transport, its reliability and effectiveness lies more and more – directly proportional to increasing number of applications – on the technology of the company and its employees. New technical solutions as well as prompt response to accident events became a safety motto just in the evaluated year. The new safety functions responsive to the passing through signal prohibiting the movement, the new system of European automatic train protection, the completed project of Radio-block, systems eliminating loss of shunt – that all became a common factor of continuously increasing safety at domestic and foreign railways under the trade mark of AŽD Praha. The training of traffic operators, which our company realizes on the simulator, resembles the system of training of airplanes pilots and considerably increases reliability of the railway traffic functioning. However, it is not only the railways which our company is engaged in – it is necessary to mention here also Prague Metro, a number of road telematics systems, building of highway technologies and many other projects we realized this year. Let us have a look abroad where you will be able to see our trade mark in almost twenty countries, from USA to Malaysia. Also our daughter companies, forming AŽD Praha group, contributed substantially to the positive indicators.

The good results could not be achieved without well functioning company internal procedures. I highly appreciate commercial, financial, design, logistic and realization activities. These sections and their representatives have done an exemplary work.

Perhaps a few complaints when comparing us with foreign companies at the evaluation of our market environment – minimal support of export from our political representation, one of the most liberalized markets in Europe, almost obstruction approach of Ministry of Transport officials during utilization of OPD 1 program when it is highly probable that part of the means will be returned back to EU budget, or pub-

lic procurement law where price is the only criterion. Even in such environment we had to cope with the past year.

I would like to come to end as optimistically as I started and also with technology as the technology itself is essential for our company. We have caught up with our foreign competition, in many areas we progressed even further, especially in the area of safety. We have been implementing with our partners the first ETCS project in the Czech Republic, we have new fully electronic interlocking ESA 44, one of the most up to date in Europe, and we have new level crossing systems which we continue to update them in programs for reduction of accident rate. We solve monitoring of a driver's activities for the lines and trains which will not be equipped with ETCS system. We cooperate on the program of speed increase to 200 km/h at the conventional lines and we prepare systems for high speed lines. Company also works on utilization of GALILEO satellite navigation systems.

AŽD Praha is a part of a number of European institutions and working groups. We are members of UNIFE, UNISIG, ACRI, Industry and Transport Confederation and many others. All of it forms the name and the trade mark of AŽD Praha.

Not all in the year was a success; let us remember problems in Egypt and Bulgaria. Whoever will want, he will certainly find certain opportunities to criticize. Provided the criticism is constructive and searching for a solution, we will be pleased to deal with it and such criticism will be a mirror to our work. Nevertheless, the results stated in this annual report are the main criterion of our work. And these results are very good.

Dear friends, I thank you once more

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 Commercial 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 at September 30, 2012.

MANAGING BODIES

as at 30. 9. 2012

GENERAL ASSEMBLY

EXECUTIVES

Ing. Zdeněk CHRDLE
Miroslav HORA
Ing. Roman Juřík

SUPERVISORY BOARD

Daniela VESELÁ
Ing. Miroslav KOZÁK
Petr ROTT

COMPANY HEAD OFFICE AND HEADQUARTERS

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ORGANISATIONAL UNITS

TECHNIKA PLANT

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PRODUCTION PLANT OLOMOUC

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DIVISION OF ROAD TECHNOLOGY AUTOMATION

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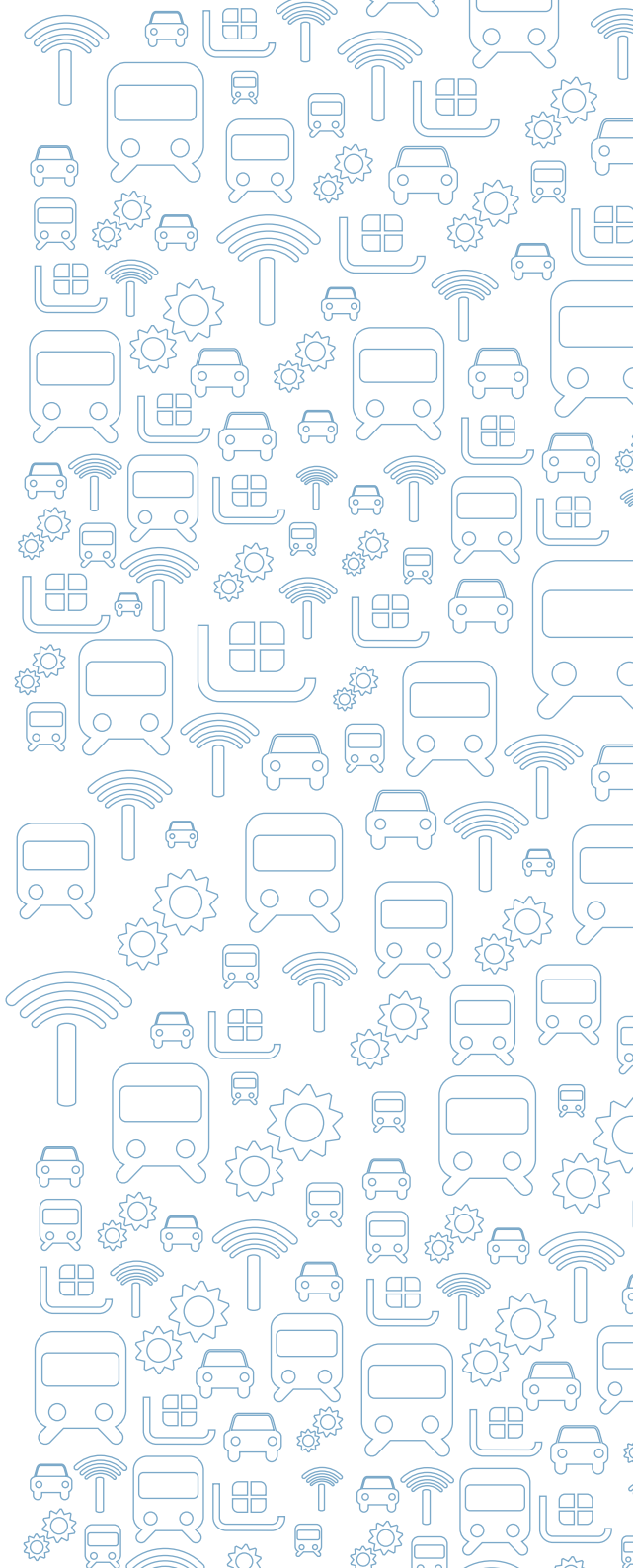
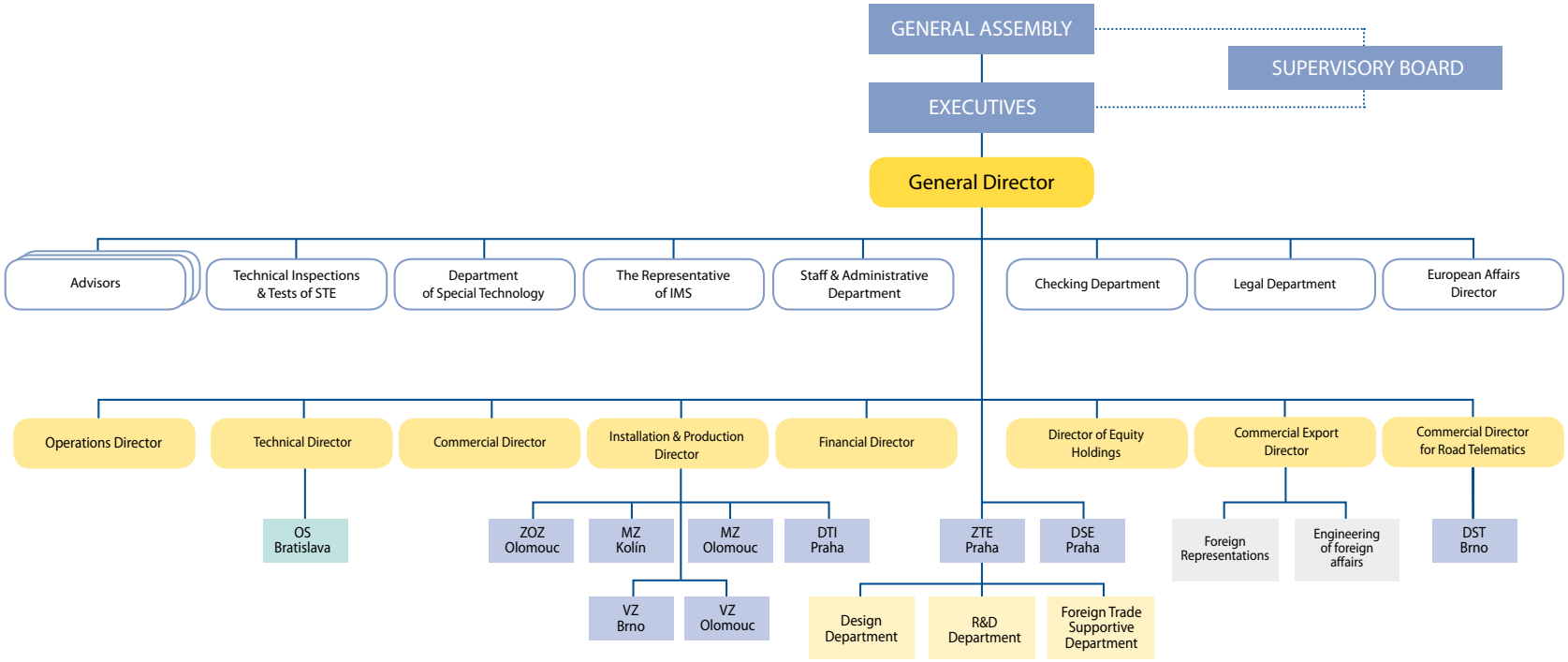


ORGANIZATION SCHEME

as at 30. 9. 2012



Key:

VZ – Production Plant
MZ – Installation Plant
ZOZ – Logistic Plant
ZTE – Technika Plan
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

Comments on the changes of the organizational structure

During the fiscal year 2011/2012 the organizational structure of the company was stable. Compared to previous fiscal period there were no organizational changes in the company which would affect the organizational chart published as at September 30, 2012.

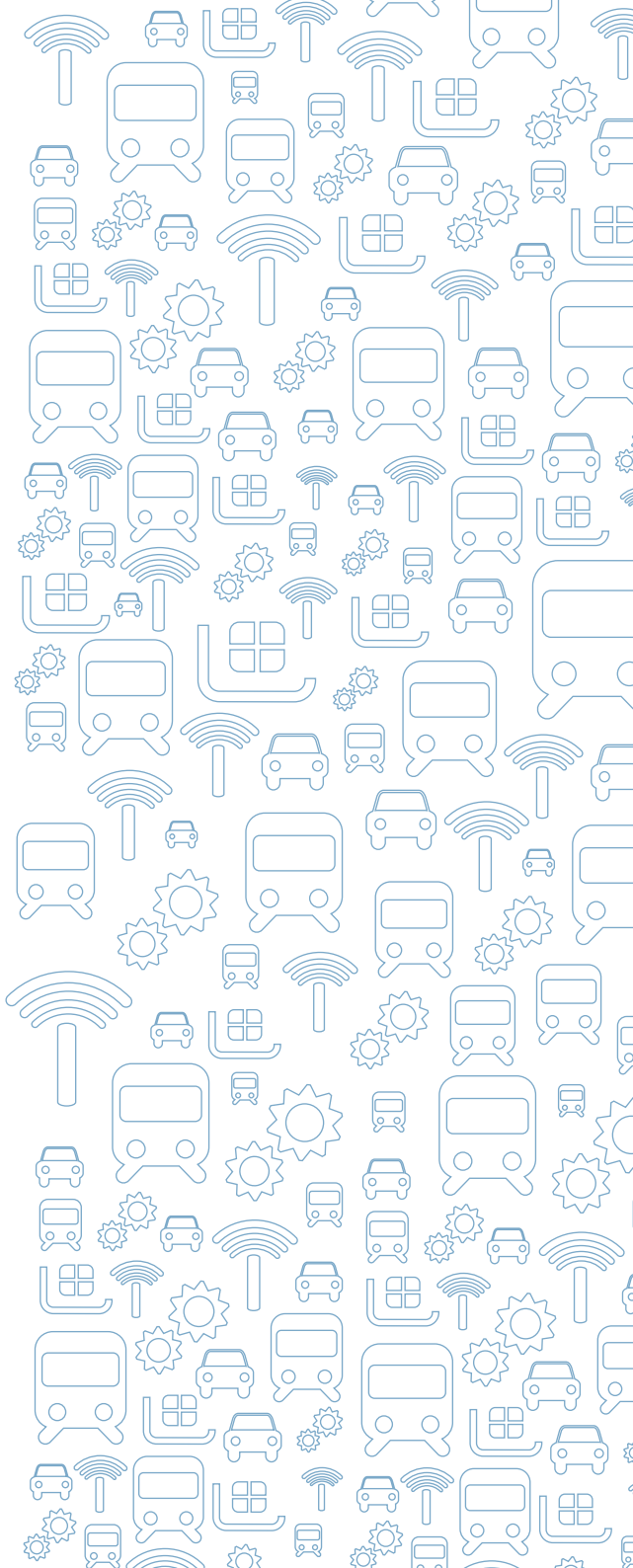
Significant organizational changes made effective from January 1, 2013

- both position "Operating director" and "Operating department" were abolished;
- Department of Special Technology was abolished;
- Optimization of Installation&Production department.

Changes of statutory body

Upon a statutory election within AŽD Praha s.r.o. General Assembly held in February 2012 and upon results put into effect from March 1, 2012 the following changes were made:

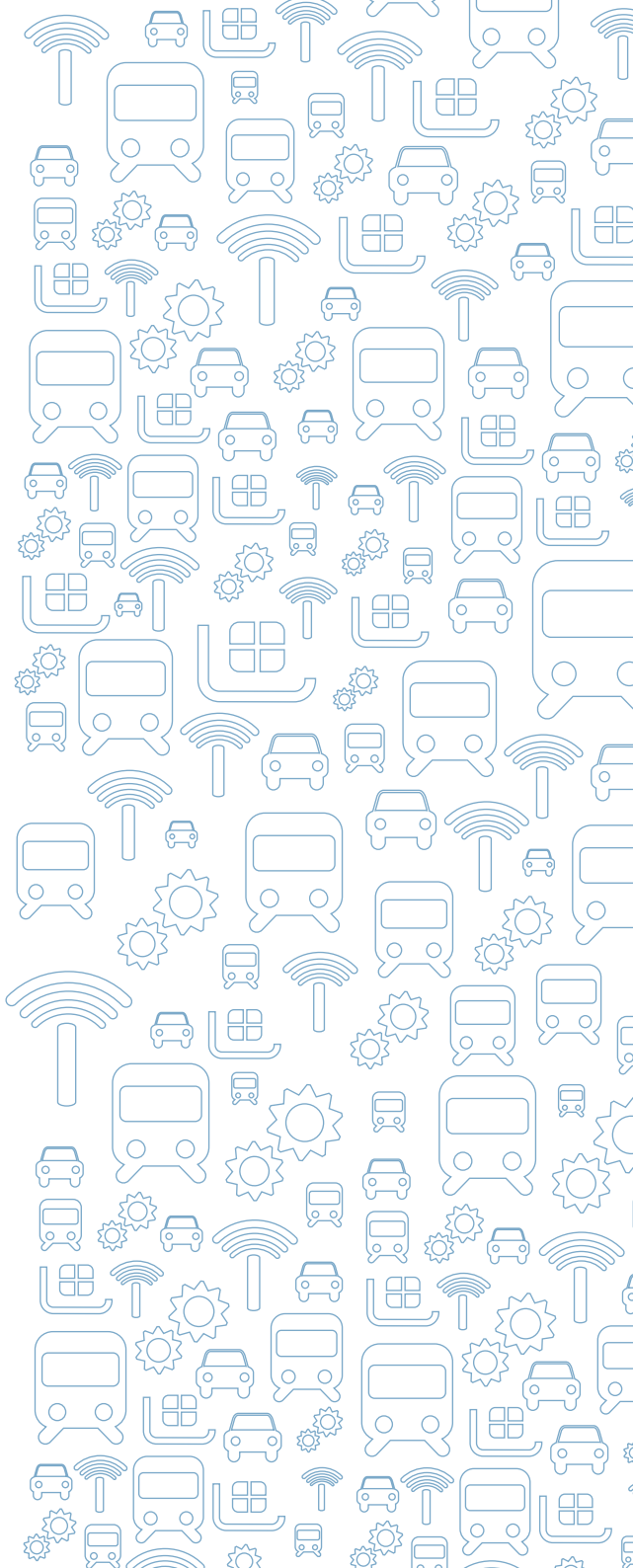
- Ing. Alice Dickova replaced by Ing. Roman Juřík, Technical Director in the position of executive officer;
- Ing. Vladimír Ketner replaced by Petr Rott in the position of Supervisory Board member.




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.



SCOPE OF BUSINESS AND ANTICIPATED ACTIVITY DEVELOPMET

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.

In the new fiscal year starting from October 2012 the commercial department of AŽD Praha widened its activity by Special Technology department. Special Technology department will be focused out of main scope of business pursue especially the systems for protection of persons and property. It concerns especially the electronis security systems, fire systems, camera systems, entrance systems and mechanical barriers. The listed technologies can be interfaced to centralized unit. Further the department process design documentation, feasibility studies etc. and pursue construction works as installation, debugging, training and warranty service.

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 and NBU certifying body.

Anticipated Activity Development

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 expe-

rience 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 MARKETING AND TRADE DEPARTMENT

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, Bulgaria, India and USA. Newly the company strives to penetrate the territories of Latvia, Croatia, Taiwan, Jordan and Macedonia.

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 was extended to December 2012. The supply includes ESA 11-LG electronic interlocking and ABE-1-LG electronic automatic block systems.

Belarus

In December 2012 the implementation of signalling system of approx. 100 km Polock – Vitebsk line section was completed. AŽD Praha scope of supply contained ESA 11-BC electronic interlocking equipment, ABE-1-BC electronic automatic block and universal power supply sources of the UNZ-BC-3 type. Further the deliveries of the systems ABE-1 and ESA 11-BC for the Minsk Severnyj – Ždanoviči line section were successfully finished. In addition AŽD Praha has been continuously preparing the design documentation for construction of railway nodes.

Serbia

During 2013 the company anticipates starting the project activities related to installation of signalling equipment for the Niš – Dimitrovgrad line section and participation in public tenders announced in the territory.

Montenegro

In Montenegro the implementation of the Podgorica – Nikšič railway line was completed.

Turkey

AŽD Praha commenced technical and design works on Tekirdag-Muratli project where station interlocking ESA 44, centralized traffic control DOZ-1 and line block system ABE-1, including wayside elements and telecommunications to be introduced. December 2013 has been an expected closure of the project.

Greece
In 2013 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
Through its subsidiary AŽD Signaling Inc. AŽD Praha put the PZZ-US3 level crossing system into laboratory tests in the Union Pacific lines. Further level crossing delivery under preparation for NERR (Nashville Eastern Rail Road).

Bulgaria
Another key territory for AŽD Praha is Bulgaria where its Balkan SAST subsidiary has been established and operated since 2004. 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.

Subsidiaries and organizational units abroad

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 last fiscal period our company established another two subsidiaries abroad – AŽD Signalling Inc. in the USA 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 for international policy is establishing the organizational units in Slovakia and Montenegro fulfilling the purposes especially focused on installation activities.

COMMERCIAL SECTION FOR ROAD TELEMATICS

A part of the Company's Headquarters is the Commercial Section for Road Telematics (OBU STM), which provides and delivers advanced systems and technologies meant for increasing traffic flow and safety of road transportation. In the past fiscal year 2011/2012 it developes its activities in the Czech Republic, but also focused its attention to foreign markets, especially in Slovakia, Azerbaijan, Ukraine and Turkey.

This OBU STM Section offers and delivers a large product portfolio satisfying diverse customer needs. The highway and main road transport line management may be considered the most significant product of these days. Also deliveries of information systems and control and signalling systems for motorway and main road tunnels are related to the system. Other important products are the municipal command and control centre, modern technologies for traffic light management on crossroads and pedestrian crosswalks, controlled parking management systems and following guidance systems to PR parking places. Monitoring systems, intelligent traffic camera systems based on identification and automatic recognition of car licence plates and identification of various driving offences rank among other products. This is primarily to ensure the observance of the maximum speed and related traf-

fic safety. OBU STM provides installations, repair, administration, maintenance and operation of public lighting for cities and towns.

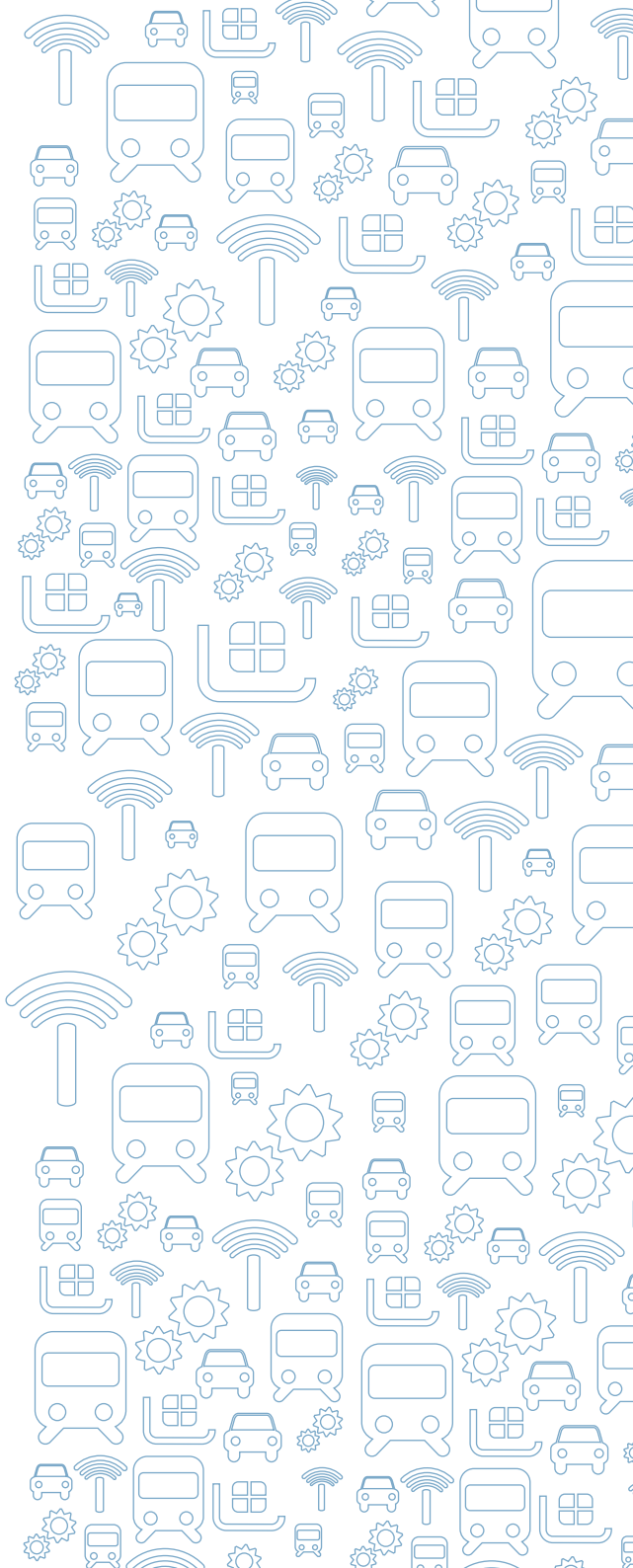
OBU STM offers complete solutions tailored to needs of customers starting with project documentation and engineering activities, production and installation to maintenance and servicing of the technologies delivered. It also provides land communication safety audits.

In addition to commercial activities the OBU STM Section also concentrates on their business of „Production, repair, and installation of measuring instruments“ including speed measuring systems, tunnel physical quantity measurement systems and physical quantity of transportation means (height, weight, …).

The commercial section for road telematics belongs among long-time active members of SDT ČR (Road Telematics Association). It organises and implements lectures and provides consulting services and participates in project and research grants of the Ministry of Transport of the CR and the Ministry of Education of the CR.

The expected development trend

Next year the Commercial Department of Road Telematics plans to focus its activities on the development and acquisition of additional long-term contracts, and strive to promote our technology to other foreign markets. In major cities it considers implementing comprehensive traffic management projects installing the control centres linked with a variety of transport technologies deployed in the urban agglomeration.



INTEGRATED MANAGEMENT SYSTEM AND ENVIRONMENTAL PROTECTION

RECERTIFICATION OF THE INTEGRATED MANAGEMENT SYSTEM

Meeting the requirements, needs and expectations of customers is an everyday priority of AŽD Praha. In order to achieve these priorities we use, among other things, a company management system – the so-called Integrated Management System (IMS) – which ensures processes both for guaranteeing the quality of products and services and also for meeting strategic quality, environmental and occupational health and safety objectives, which are declared collectively in the document entitled **Integrated Management System Policy of AŽD Praha s.r.o.**

As part of our efforts to constantly improve the efficiency and effectiveness of the Integrated Management System, AŽD Praha creates the pertinent resources and introduces progressive methods in all decisive areas of its activity in relation to the company's strategic objectives.

On the basis of the successful result of the RSP, DSE and ZTE recertification audit, which took place on 23 to 25 January 2012, AŽD Praha was awarded certificates from the international certification authority **IQNet**, reg. No CZ-2021/2012 (compliance with **ISO 9001:2008**), CZ-17/2012 (compliance with **ISO 14001:2004**) and CZ-18/2012 (compliance with **OHSAS 18001:2007**).

Recertification audits took place just as successfully in all organisational units, which are independent certified locations, and these were awarded the respective certificates from the Electro Technical Testing Institute certification authority.

The certificates awarded are proof for our customers of AŽD Praha's adherence to the principles of modern management, assurance of the quality of our products and services, environmental friendliness and occupational health and safety.

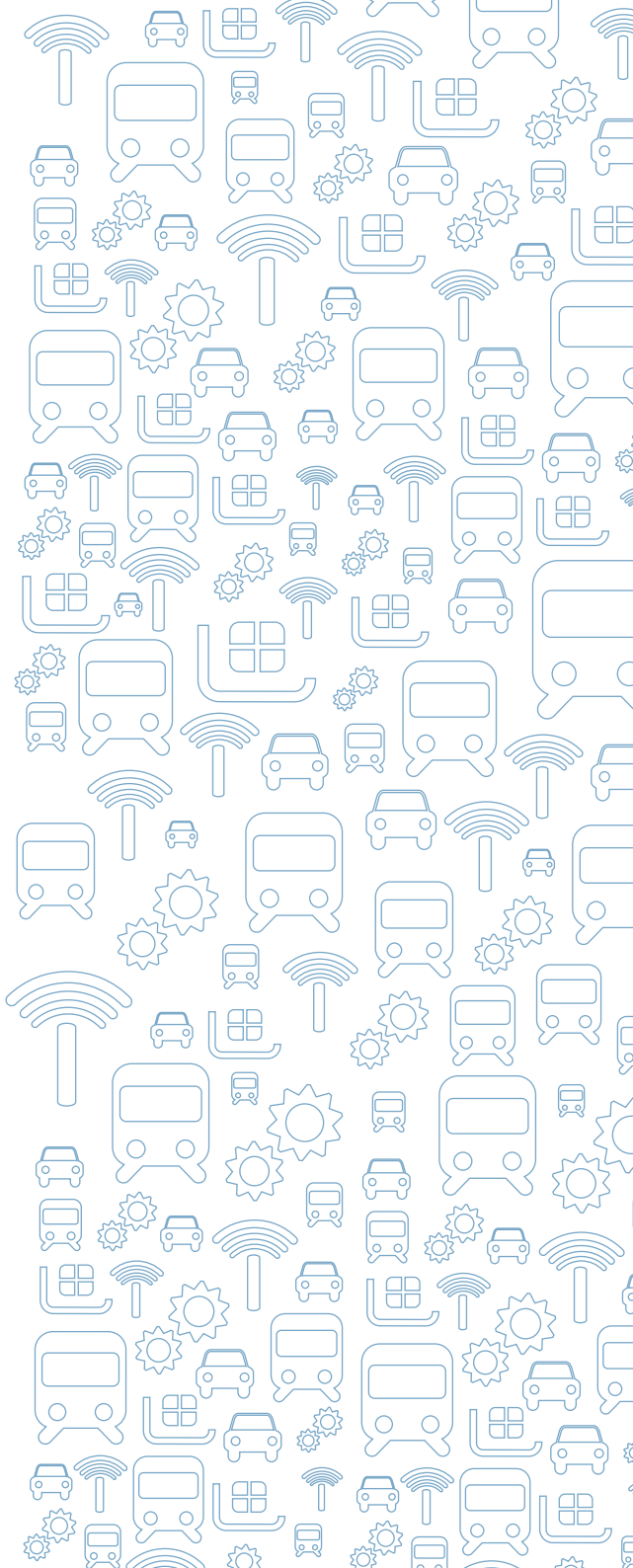
THE ENVIRONMENTAL PROTECTION

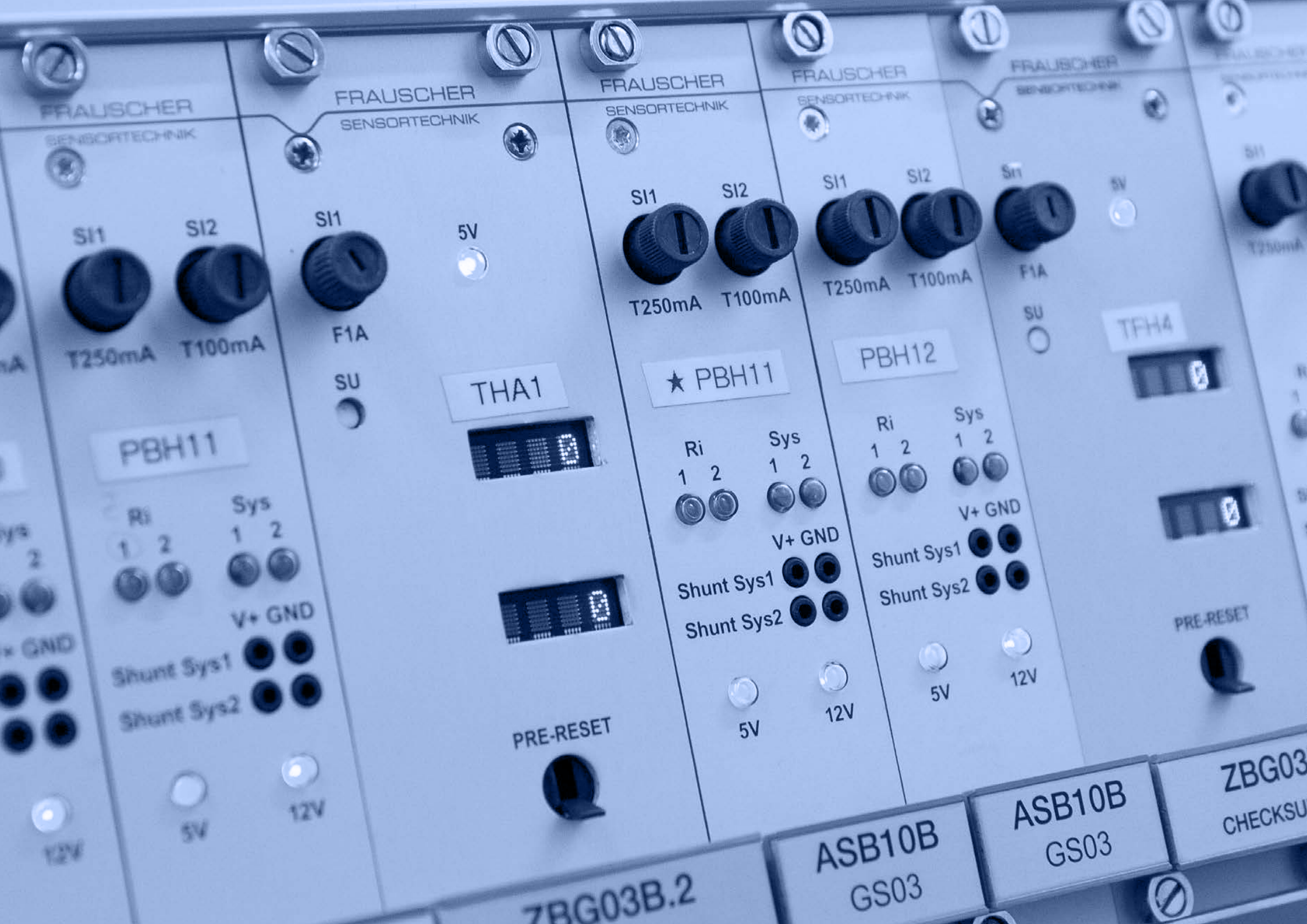
Detailed analysis of environmental problems at AŽD Praha is performed not only in the individual organisational units, but also at the level of the legal entity as a whole, on the basis of a plan determined in advance. The result is the comprehensive document **"Company environmental profile for …"**, which assesses the behaviour of the company as a whole in individual areas of environmental impact.

Statistical data covering the past eight years makes it possible to perform analyses in individual areas of the environment (water and waste treatment, air protection, protection of nature and the landscape, treatment of chemical substances and mixtures, energy management) and assess the revealed trends (e.g. consumption of water, mass volumes of other and hazardous waste production, consumption of chemical substances and mixtures including actual costs), all in relation to the company's turnover, production and fitting activity as well as the nature of construction projects, whereas the commenced restructuring of production plants is expected to be reflected in the balances in individual areas of the environment in the coming period.

In relation to company turnover, assessment is also performed of energy consumption and there are searches for other ways to make savings in consequence of the increasing prices. The company management decided to hold a tender for a central supplier of electricity and gas from 2013.

The new Air Protection Act No 201/2012 became valid on 1 September 2012, and the company's largest environmental investment, namely the modernisation of the manual and machine paint shop at the production plant in Olomouc of almost CZK 10 million (not including VAT) is intended to ensure compliance with this. Carbon filters have been added to the machine paint shop to absorb volatile organic substances, modifications have been made to the air-conditioning in the high volatility area, a distillation column has been added for the recycling of used diluting agents, and carbon filters have been fitted in the manual paint shop. This modernisation will result in a decrease in emissions into the air (to be assessed after one year of operation), while a recuperation system fitted into the air-conditioning system will result in savings in energy consumed from the central heating source, and energy losses will also be significantly decreased by the replacement of windows and insulation at the paint shop building. Improvements to hygiene and occupational safety at workplaces also go hand in hand with this.




FRAUSCHER
SENSORTECHNIK
SI1
SI2
T250mA
T100mA
PBH11
Ri
Sys
1 2
V+ GND
Shunt Sys1
Shunt Sys2
5V
12V
F1A
SU
THA1
PRE-RESET
★ PBH11
PBH12
TFH4
ZBG03B.2
ASB10B
GS03
ZBG03

RESEARCH AND DEVELOPMENT

RAILWAY TRANSPORTATION

AŽD Praha, as a traditional supplier especially of safety technology for railway transportation, but also road signalling technology, ensures the majority of its deliveries using products it has developed in house. For this reason, AŽD Praha has created a top quality base of highly qualified in-house development workers. Apart from this, however, AŽD Praha cooperates with subsidiaries and also with other entities, including collaboration with selected workplaces in universities and other further education institutions.

Apart from the actual development of new equipment, AŽD Praha is also active in the field of technical standardisation. In this country, the company cooperates in the standardisation committees of the Czech Office for Standards, Metrology and Testing and the Centre for Technical Standardisation of the Association of the Czech Railway Industry. Abroad it participates in work in selected UNISIG, UNIFE and CENELEC working groups.

AŽD Praha supplies equipment intended for rail transportation (safety and communications), equipment for underground railways, control and information systems, telematics applications, road signalisation equipment, car park systems and more. The largest and most important part of the product portfolio is electronic safety equipment for rail transportation. New equipment is designed in such a way that among other enhanced end-use properties, it first and foremost provides a higher level of safety to rail transportation and greater convenience for the operating staff.

An important example of this type of equipment is the currently most up-to-date ESA 44 station interlocking, which has been fitted at the Stará Paka rail hub. This equipment includes a VNPN system (this warns of unauthorised passing of signals by a train), which contributes significantly towards increasing safety.

One of the other important development fields is work relating to the construction of ETCS Kolín – Břeclav at the Austrian / Slovak state border.

Another important part of our development work is related to essential modifications to equipment for deliveries abroad. In the field of rail technology, this above all concerns modifications to station interlocking, line signalling and level crossing systems intended for Slovakia, Lithuania, Belarus, Montenegro, Serbia and Turkey, deliveries of point machines to Malaysia, and also deliveries of the automatic train protection and the automatic train operation system for trains on the Warsaw Metro.

ROAD TELEMATICS

Research and product development of road telematics is provided by the separate R&D department classified under OBU STM.

In the past year, OBU STM began working on the grant obtained the Technology Agency of the Czech Republic – Optimization of algorithms of the station interlocking adaptive control system in urbanised areas. We expect that the grant will contribute to the development of superstructure module to extend the functionality of EDAPTIVA the urban traffic control centre which currently provides supervision and management within small and large urban agglomerations, including connection other telematics technology installed in the monitored area (strategic detectors, variable traffic signs, line management, transport, information devices for drivers, weather observation stations, camera systems etc.).

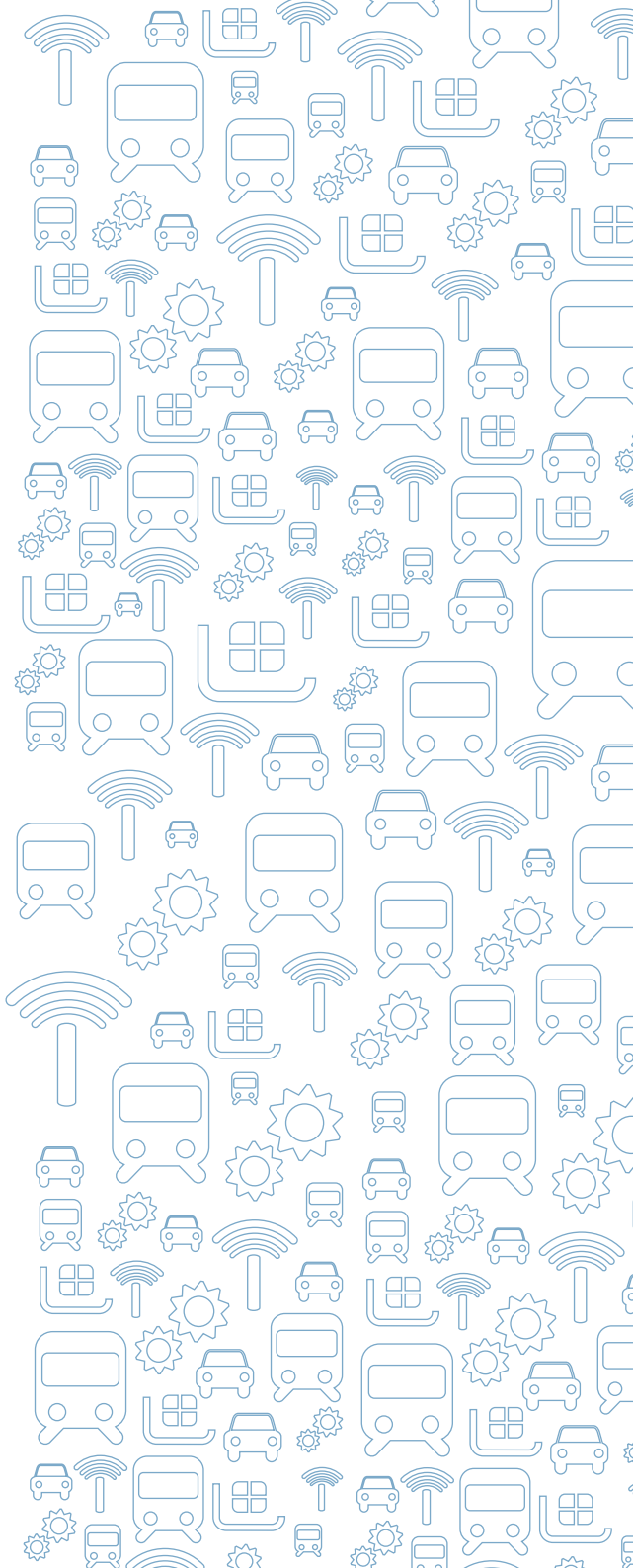
Developments in road telematics was directed to innovation of the automatic

video detection and evaluation of offenses on RedCon light controlled intersections and the RedRail railway crossings.

The expected development trend

Next year the Commercial Department of Road Telematics plans to focus its activities on the development and acquisition of additional long-term contracts, and strive to promote our technology to other foreign markets. In major cities it considers implementing comprehensive traffic management projects installing the control centres linked with a variety of transport technologies deployed in the urban agglomeration.

In the area of technological development it will continue to expand on development of advanced telematics technologies and increase their competitiveness in world markets.

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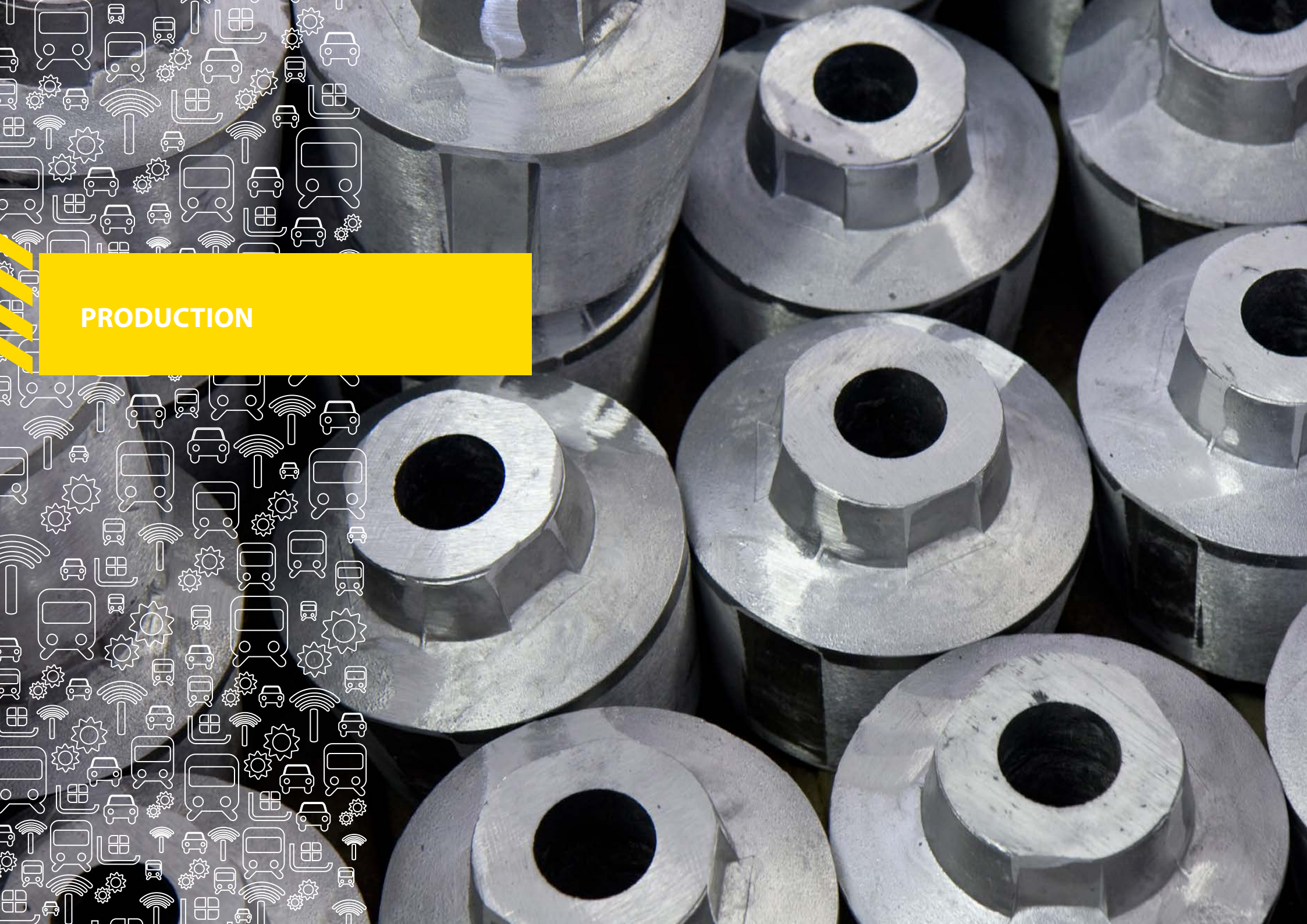


PRODUCTION

The 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. From the foreign projects realized in the 2011/2012 financial year we can mention especially constructions in Belarus and Lithuania.

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 and it is responsible for the production of mainly wayside elements for securing points and level crossings. Investments realized during recent years were directed mainly to cutting operation area. The plant is equipped with modern program-controlled CNC machining centers and disposes of quality technologies in panel beating sector. Also modernization of the paintshop was realized this year.

The Production Plant Brno is specialized in the production of electronic and electro-technical configurations of railway signaling and telecom systems. The production of basic electronic configurations at the printed circuit boards, completion of electronic units, electro-technical configurations and direct configurations of signaling equipment is centralized in this Plant. In the production procedure of assembly of electronic configurations at the printed circuit boards the most up-to-date technological equipment is used for shouldering of the boards and their control. All electronic configurations at the printed circuit boards made in the Production Plant Brno are manufactured and assessed according to international norms IPC criteria. Pursuant to ongoing restructuring of the production plants the manufacturing of electronic and electro-technical products from the cancelled Production Plant Prague and the engineering products from the Production Plant Brno have been transferred to the Production Plant Olomouc. Large share on the production volume in the Production Plant Brno has cooperative manufacturing of electronic configurations for external customers, especially the manufacture of electro-mechanical vacuum subconfigurations of electronic microscopes for FEI Company. Based on winning in the tender, the assembly of superior units of the electronic microscopes has been started.

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 production of basic electronic configurations at the printed circuit boards, completion of electronic units, superior electronic and electro-technical configurations and direct configurations of signaling equipment is centralized in this Plant. The manufacturing processes 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. Management and control of the production procedure corresponds to worlds standards. 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.

From the point of view of technological demand, the manufacture of the most complicated electronic configurations, such as the printed circuit boards assembled from both sides by externally mounted components and parts with outlets to through holes, is in the Production Plant Brno fully mastered. All electronic configurations on printed circuit boards are manufactured and assessed according to international norms IPC criteria valid for the most demanding class 3. The rules for protection of electronic configurations against electrostatic discharge are thoroughly observed during all production processes. The production processes set in such way are applied not only at the assembly of the electronic configurations of our own repetitive, prototype and sample production but they are also successfully offered to external customers.

Within the continuous improving of quality, productivity and yield of the production processes the second shouldering automatic machine and a new system of automatic optical inspection for the surface assembly was obtained in the 2011/2012 business year. The manufacture of the products converted into the production program of the Production Plant Brno within the project "Restructuring of the production plants" was successfully mastered during this business year. In the past period also the revision of main, control and subsidiary procedures / process management in the area integrated system of management of the Production Plant Brno was realized.

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. Meeting of FEI Company with its subcontractors at the Supplier's Day at Dutch Eindhoven became an important event for AŽD Praha Co. which belongs to the most important suppliers of FEI Company and which obtained for its actual work a remarkable award „Best performance continued outstanding support". This appraisal in challenging and specific area of business proves that the Production Plant Brno is successful even in strong international competition.

Environmental protection

The Production Plant Brno contributes to environmental protection within the environmental policy and strategy of AŽD Praha, specifically by consistent utilization of lead-free alloys and non-rinsing fluxes as well as fluxes on water basis in all soldering processes. In the procedures of cleaning the configurations at the printed circuit boards and components for vacuum technology, only materials and procedures not endangering environment are used.

PRODUCTION PLANT OLOMOUC

Within the specialization of production plants the Production Plant Olomouc is focused on engineering production and ensures production of mainly outer elements for securing turnouts and level crossings which must be resistant not only against action of atmospheric influences but also

against railway traffic directly in the railyard. Investments realized during recent years were directed mainly to cutting operation area. The plant is equipped with modern, high performance programme-controlled CNC machining centers Mazak which considerably increased the technological level of the plant in this area.

In the area of monitoring the production quality, 3D measuring digital center LK G-90C is an outstanding co-operator. Very precise three-crossbar measuring system enables control of the firstly made pieces up to the size 600 × 500 × 400 mm.

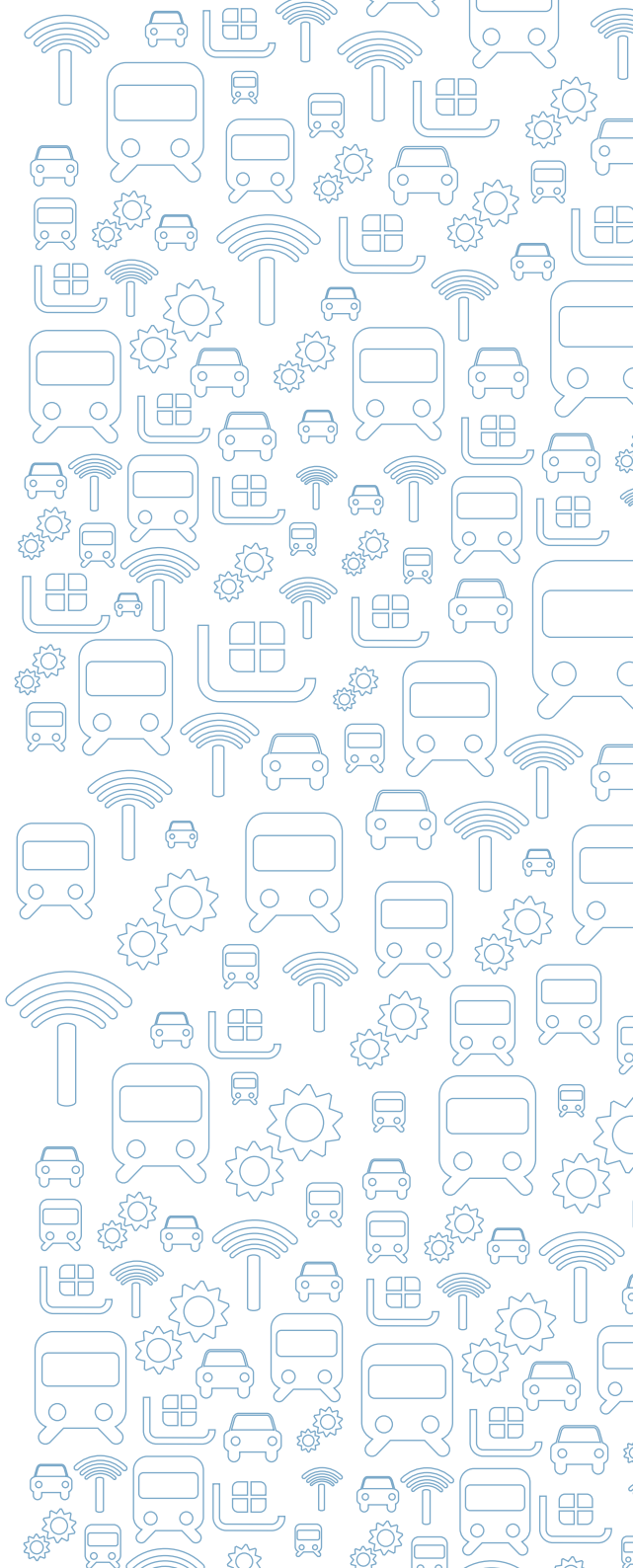
The Production Plant Olomouc disposes at present also of quality technologies in plate beating area. Punching press TruPunch 3000 and press brake CNC Trubend 2170 enabled the extension of production program with cabinet line which can be used both for AŽD and external partners.

In the past two years the investment into modernization of paintshop was realized so that this shop may fulfill very demanding criteria regarding environment protection even in future and at the same time the quality of surface treatment was ensured for the products with 5-year guarantee placed in outdoor environment.

Within spare capacity the Production Plant Olomouc utilizes its experience and machine equipment for providing the services especially in cutting operation area and at the same time ensures cooperation including design and technologic proposal in CAD, CAM (3D and 2D).

Environment protection

The Production Plant Olomouc takes care of the environment problems and actively approaches to safety and protection of health at work. Together with the quality these management systems are certified and integrated into unified Integrated Management System (IMS). Within the practical implementation of the "Manual of Integrated Management System" the mentioned reconstruction of machine and hand paintshop is in progress including installation of active filtration for catching of all undesired substances. All machining centers Mazak have their own working space and closed circuits for refrigeration and lubrication which not only increases the care of environment but also the safety of workers and protection of health at work.



INSTALLATION

In the past business year the capacities of assembly plants were directed to certain uncompleted sections of the railway corridors and to junctions.

Among the technologies used at such projects we can point out the newest station interlocking ESA 44 complemented with new functionalities EZS (loss of shunt evidence) and VNPN (warning at forbidden passing the signal) which are important elements for increase of safety and which eliminate risk factors in railway traffic sector.

Introduction of integrated line sections into dispatchers' centers by means of DOZ (remote control of signaling equipment) is the latest trend in the railway transport. DOZ is newly complemented with the KSZZ communication system.

The current level of telecommunication technologies enables cohesion and close cooperation with the signaling equipment. The result is the quick and safe transmission of information, the function General stop by means of TRS (line radio system) may be an example.

Also the new digital technology comprising radio and information equipment for passengers contributes to improvement and endowment of the constructions.

In connection with the building of GMS-R at the part of line section Ostrava – Slovakia, border and Česká Třebová – Přerov the base stations BTS (base station GSM-R) have been built up. Our company contributed to upgrading of transport and increase of safety by another important element which was the delivery of universal radio stations FXM20 and MTR10 for GSM-R and TRS bands fulfilling the strictest requirements to interoperability. We have equipped with this new system altogether 381 vehicles, from that 300 vehicles for ČD a.s. and 81 vehicles for ČD Cargo a.s.

We can mention several important projects completed in the period under consideration, such as „Modernization of the line Benešov – Votice, station Olbramovice", „Optimalization of the line Beroun – Zbiroh" and „Modernization of the line section Praha-Libeň – Praha -Běchovice". The building of „DOZ Česká Třebová – Přerov" with local and remote control from CDP Prerov has been also completed. Further, the capacities of the assembly plants were focused on investment ventures of SŽDC, such as reconstruction and repair works on especially level crossing equipment. These individual actions are less significant from the volume point of view but they are very important for the safety of railway and road traffic. The level crossing equipment is recently complemented with other safety elements, such as the signalization for blind persons and occupancy indication at the crossing.

In the area of foreign assembly activities the greatest success was recorded in Belarus and Lithuania. However, installation work continued also in other destinations, e.g. in Montenegro with Podgorica – Nikšič project, and other realizations are being prepared in Turkey.

The experiences with foreign contracts show the necessity of quality coordination of design work with production itself together with the final installation and commissioning. All elements of the process must be brought into internal life of the project including its own development basis which is integral part of the whole process of successful completion of the project.

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

Overview of major projects activated in 2011–2012				
Period	**Installation Plant**	**Name of project**	**Activation**	**Note**
4/Q–2011				
	DTI	**Reconstruction of LX in km 133,825 on Most – Moldava line**		
	DTI	LX in km 133,825	4. 10. 2011	PZZ RE
	MZK	**Reconrtuction of LX in km 31,302 (Rtyně) on Jaroměř – Trutnov line**		
	MZK	LX in km 31,302	5. 10. 2011	PZZ EAV
	DTI	**Reconstruction of LX in km 29,782 on Trutnov-střed and Teplice nad Metují line**		
	DTI	LX in km 29, 782	17. 10. 2011	PZZ RE
	MZO	**Construction of LX in km 7,209 on Kravaře ve Slezsku – Hlučín line**		
	MZO	LX in km 7,209	27. 10. 2011	PZZ RE
	MZK	**Reconstruction of LX in km 47,704 (Obora) on Chlumec nad Cidlinou – Trutnov line**		
	MZK	LX in km 47,704	3. 11. 2011	PZZ EAV
	MZK	**MO Myslbekova – Špejchar**		
	MZK	Praha Bubny – Praha Dejvice, Line signalling	9. 11. 2011	AH 88
	MZK	Praha Dejvice - Praha Veleslavín, Line signalling	9. 11. 2011	AH 88
	DTI	**Reconstruction of LX in km 77,200 on Praha – Chomutov line**		
	DTI	LX in km 77,200	11.11.2011	PZZ RE
	MZO	Reconstruction of LX in km 27,441 on Opava-východ- Kravaře line		
	MZO	LX in km 27, 441	14. 11. 2011	PZZ EA
	MZO	Modernization of Benešov – Votice line		

	MZO	**Station Olbramovice, Station interlocking**	25. 11. 2011	ESA 33
	MZK	**Modernization of line section Praha-Libeň – Praha-Běchovice**		
	MZK	Station Praha-Libeň, Station interlocking	28. 11. 2011	ESA 33
	MZK	Praha-Libeň – Praha-Vysočany, line signalling	7. 12. 2011	ITZZ
	MZO	**Construction of LX in km 0,707 and km 4,732 on Krnov – Jindřichov ve Slezsku line**		
	MZO	LX in km 0,707	1. 12. 2011	PZZ EA
	MZO	LX in km 4,732	1. 12. 2011	PZZ EA
	MZK	**Optimization of Beroun – Zbiroh line**		
	MZK	Hořovice – Zbiroh, Line signalling	6. 12. 2011	ABE 1
	MZK	Zdice – Hořovice, CTC	6. 12. 2011	DOZ 1
	MZK	**Construction of LX in km 52,009 Tábor – Horní Cerekev**		
	DTI	LX in km 52,009	9. 12. 2011	PZZ RE
	MZO	**Reconstruction of LX in km 23,633 on Havlíčkův Brod – Humpolec line**		
	MZO	LX in km 23,633	9. 12. 2011	PZZ RE
	MZO	**Slovakia – ŽSR, Žilina – Teplička, station interlocking, stage 2**		
	MZO	Departure group	18. 12. 2011	ESA 33
1/Q–2012				
	MZO	**Construction of LX in km 1,524 on Prostějov – Chornice line**		
	MZO	LX in km 1,524	15. 2. 2012	PZZ RE
	MZO	**Optimization of Bystřice n. O. – Český Těšín line**		
	MZO	Český Těšín – Třinec, Line signalling, 1st line track	28. 3. 2012	ABE 1
2/Q–2012				
	MZO	**Optimization of Bystřice n. O. – Český Těšín line**		
	MZO	Český Těšín – Třinec, Line signalling, 2nd line track	24. 4. 2012	ABE 1

	MZO	**Belarus – Line block Vitebsk – Polock, Stage I**		
	MZO	Station Čepino, Station interlocking	28. 4. 2012	ESA 11 BC
	MZO	**Staion Knjažica, Station interlocking**	28. 4. 2012	ESA 11 BC
	MZO	Station Staroje Selo, Station interlocking	28. 4. 2012	ESA 11 BC
	MZO	Station Jazvino, Station interlocking	28. 4. 2012	ESA 11 BC
	DTI	**Reconstruction of LX in km 28,774 and 29,032 on Hradec Králové – Jičín line**		
	DTI	LX in 28,774	30. 4. 2012	PZZ RE
	DTI	**LX in 29,032**	30. 4. 2012	PZZ RE
	MZO	**CTC Česká Třebová – Přerov**		
	MZO	Přerov – Česká Třebová, CTC Přerov	31. 5. 2012	DOZ 1
	MZO	**Lithuania – Kaunas – Kybartai**		
	MZO	Station Mauruciai, Station interlocking	22. 6. 2012	ESA 11 LG
	MZO	Station Kazlu Ruda, Station interlocking	29. 6. 2012	ESA 11 LG
3/Q–2012				
	MZO	**Construction of LX in km 15,139 and 15,664 on Havlíčkův Brod – Humpolec line**	18. 7. 2012	RE Fotov.
	MZO	Lithuania – Kaunas – Kybartai		
	MZO	Station Pilviškai, Station interlocking	6. 7. 2012	ESA 11 LG
	MZO	Station Vilkaviškis, Station interlocking	13. 7. 2012	ESA 11 LG
	MZO	Station Kybartai, Station interlocking	27. 7. 2012	ESA 11 LG
	MZK	**Optimization of Zbiroh – Rokycany line**	9. 7. 2012	
	MZK	Loading port Zbiroh, Station interlocking	9. 7. 2012	ESA 33
	MZK	Zbiroh – Kařízek, Line signalling	9. 7. 2012	ABE1
	MZK	**Construction of LX in km 0,348 on Rokycany – Nezvěstice line**	9. 7. 2012	RE
	MZO	**Reconstruction of LX in km 14,490 on Zaječí – Hodonín line**	9. 7. 2012	RE
	DTI	**Reconstruction of LX in km 14,089 and 14,212 on Praha – Plzeň line**	23. 7. 2012	RE

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 2011/2012 fiscal year was the second stage of implementation of information system and continuous control of the highway in Azerbaijan. The 3rd phase of the project will be realized in next fiscal year.

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 within "Project Praha" successfully passed into operation. Also the project works of technology supply for the Blanka tunnel complex continued.

Three new intersections with traffic light were installed in new commercial centers in Černý Most in Prague. Other new intersections were installed in Brno, Třinec, Havlíčkův Brod and Bystřice nad Olší.

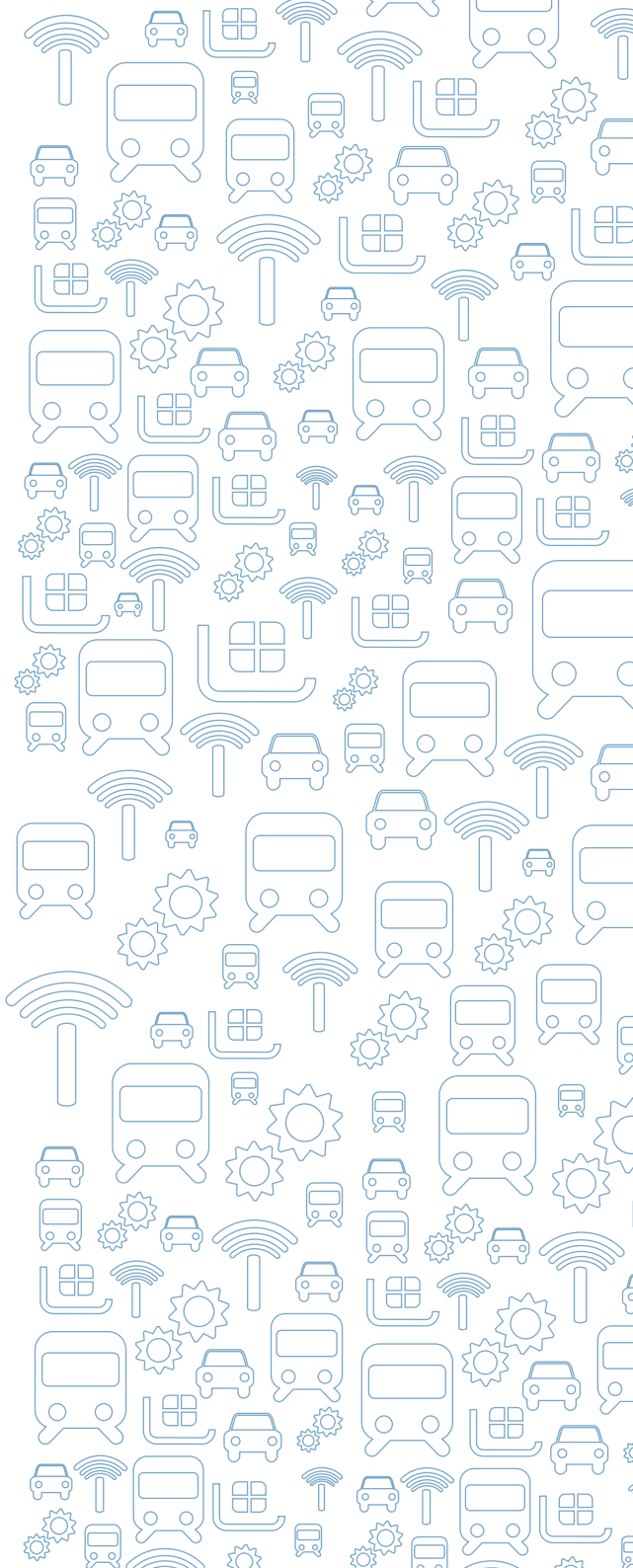
Division contributes in procurement for safety pedestrian crossings and systems for regulation of traffic fluency. In the fiscal year 2011/12 division equipped other pedestrian crossings by signalling system in Žďár nad Sázavou, Třebíč-Pocoucov, Úhonice and Závišice with function of stopping fast moving vehicles and illumination of the crossing area. Independent slowdown traffic light (SpeedStop) was installed in Havlíčkův Brod and Pelhřimov. Further the independent pedestrian crossing systems were realized Prague (Michle district) and in Krnov. In Turnov the pedestrian crossing was equipped by light spots embedded in the road surface (LED lights) and eleven crossings were illuminated in Jihlava and Olomouc.

To increase the safety for the kids and to prevent traffic accidents division provides specially designed technology throughout the Czech Republic. In the fiscal year 2011/12 the children's tradic playgrounds in Praha-Horní Počernice and Štětí were equipped by light signaling systems and single railway level crossing.

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” (Náměstí Míru × Jugoslávská, Bucharova × K Hájům, Podbělohorská × Nad Klamovkou)
- Installation of road siganalling system at Blanka tunnel complex (Letenské náměstí, Milady Horákové × U Sparty)
- Management and maintenance of the Jihlava tunnel and Zlíchovský tunnel in Prague
- Construction of intersections with road siganalling system in Brno, Kolín and other cities.

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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 318 station interlocking equipment, 1 096 level crossing systems, 104 line sections of electronic automatic block, additional 120 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 (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 315 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

The Logistics Plant with its seat at Olomouc is a logistic center of AŽD Praha Co. divided into two executive sections, from which Logistic and Sales division ensures at the same time the purchase and sale of our own products and other material which is specific and different from other logistic and supplier's companies. Recently a new Stock-keeping department disposing of its own automobile transport was included in the division and ensures distribution of material on the whole territory of the Czech Republic and Slovakia as well as the execution of material distribution to certain foreign projects. The complex economic agenda is then ensured by Economy department that at the same time processes also the evaluation of foreign orders.

The Plant closely collaborates with assembly plants at the individual projects, participates at control days and projects presentations and ensures operational deliveries in extraordinary situations. Abroad, the projects Kaunas – Kybartai in Lithuania, Vitebsk – Polock, Minsk Severnyj – Ždanoviči and newly Osipoviči – Žlobin in Belarus. The last superstructure stage of the line Podgorica – Nikšič was realized in Montenegro where the deliveries were addressed already to new contractual partner Železničko gradevinsko preduzeče from Slovenia. The expedition of material and products was realized also in Slovakia for the projects of V. railway corridor Nové Mesto nad Váhom – Zlatovce and Trenčianska Teplá – Velusa and further for the project Bratislava – Dunajská Streda and Čierna nad Tisou. Even during continuously increasing supplies to foreign business partners we manage with increasing experience to adapt consignments more and more to local requirements and practice.

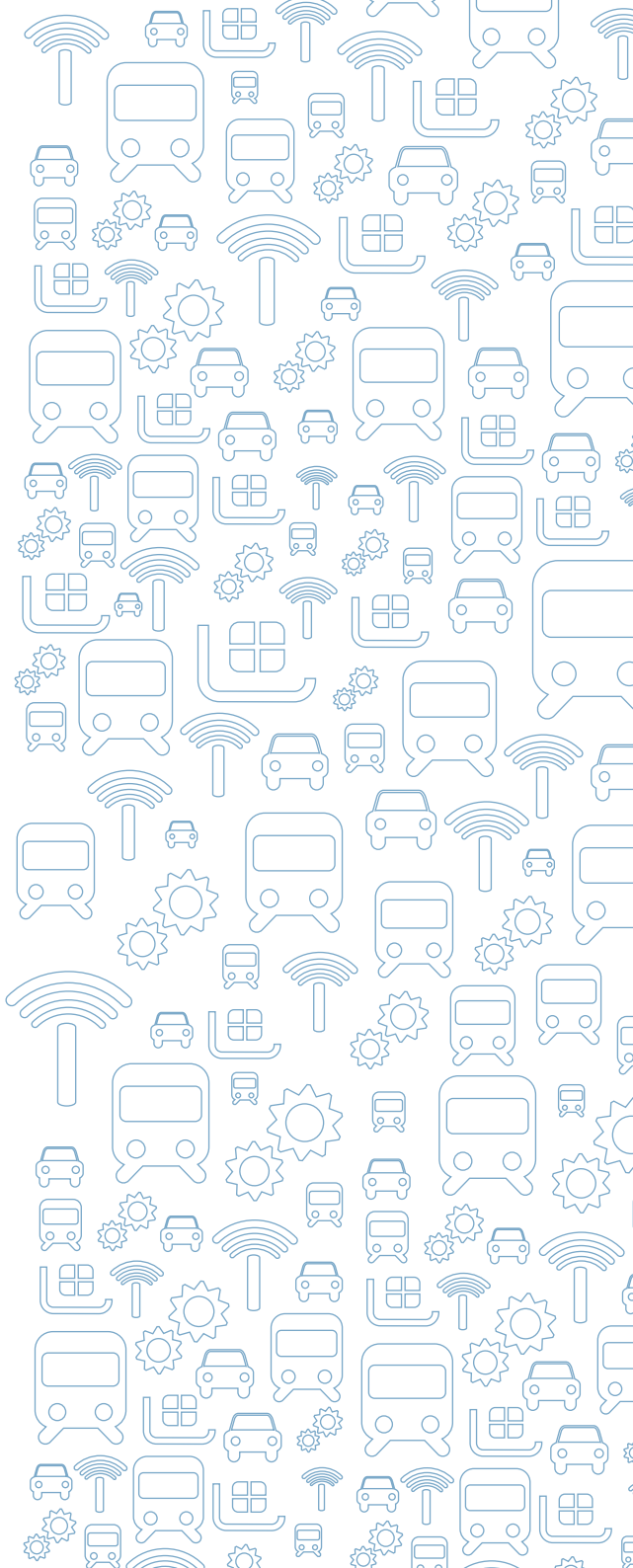
The Plant management focused in the past year to even more rigorous usage of today's possibilities of quickly developing information technologies during operation of own e-shop. For the acceleration of information exchange with daughter companies the data interconnection saving time and money is gradually extended. Also the participation in electronic auctions arranged by both current and potential clients was considerably extended. This modern method of seeking the cheapest supplier of items with exactly defined requirements on their quality was newly used also for the purchasing.

The long-term effort to inform especially key customers about new products and trends in management and safety of transport is more and more supplemented by technical support at the specification, verification and validation of their requirements. The permanent adaptation of the organizational structure of the Plant to the changing needs and requirements of the customers is matter-of course. The introduction of new organizational method and of claims settlements also contributed to the customers' satisfaction with the provided service.

For better accessibility of modern technologies, the marking of traded material and products were used enabling their quicker and more precise identification and more reliable deducibility at the purchase, storing and sale. The view on the status of items is thus increased and also the execution of inventories is considerably easier. In an effort to further reduce the warehouse stock in the company, the stores at the production and assembly plants are gradually replaced by direct supplies which lead at the same time to other savings of labor costs. Further savings are expected

after completion of the rationalization of the plant transport.

In the business year 2011/2012 material in total value of 1889 million CZK passed through the stores of the plant, of which 989 million CZK for its own organizational units and 900 million CZK for external customers including foreign ones. Although the ongoing general stagnation continues to show and at the same time the pressure is exerted to reduce all costs, the plant succeeds in maintaining and continuous modernizing of the plant infrastructure and every year considerable amounts are spent to the all-round raising of all employees qualification.



AŽD PRAHA, EU AND INTERNATIONAL COOPERATION

AŽD Praha has acquired its position as a respected and reliable supplier of signalling and control equipment on the world-wide market not only due to its professional conduct and approach to its customers but also due to its responsible attitude to the creation of European standards, to the European legislation and research and development.

Ten years have passed since our decision to be more actively involved in the creation of the European legislation. We launched our activities in AEIF in the creation of the first Technical Interoperability Specifications – CCS via UNIFE (Association of the European Rail Industry with its registered office in Brussels) on behalf of ACRI (Association of the Czech Rail Industry). Subsequently, AŽD Praha joined UNIFE and our cooperation successfully developed. A radical change occurred in 2009 after we opened our agency in Brussels a year before 2009 and actively participated in many working groups in UNIFE and UNISIG (consortium creating the specifications of the ERTMS/ETCS system – a European automatic train protection system). AŽD Praha thereby assumed liability for the development of signalling equipment on the European scale. UNISIG supports technical work on the creation of the ERTMS/ETCS specifications, where the European Railway Agency (ERA) in April 2012 within the framework of the Danish presidency of the EU Council officially declared the long-awaited Baseline 3.0 of this system. UNISIG and UNIFE continue in the development of specifications, since half its users come from non-EU countries and it is necessary to respond to their requirements. For this reason, the ETCS system is now being extended by the satellite navigation GPS/GALILEO, integration with automatic train operation (ATO) systems and systems enabling the use of state-of-the-art radio transmission channels.

UNISIG continues in opening to the world, which commenced after AŽD Praha joined this exclusive club of high-tech companies in the industry in 2009. Further companies were admitted and UNISIC now consists of Alstom, Ansaldo STS, AŽD Praha, Bombardier Transportation, CAF Signalling, Invensys rail, Mermec Group, Siemens and Thales.

Rail Forum Europe with its registered office in Brussels is an association of the European Parliament deputies. AŽD Praha actively participated in the establishment of the forum, which is in the second year of its existence. The forum created an interesting and successful discussion platform for general solutions of the issues of the railway transport and for the development of joint strategies of European deputies associated in the railway transport.

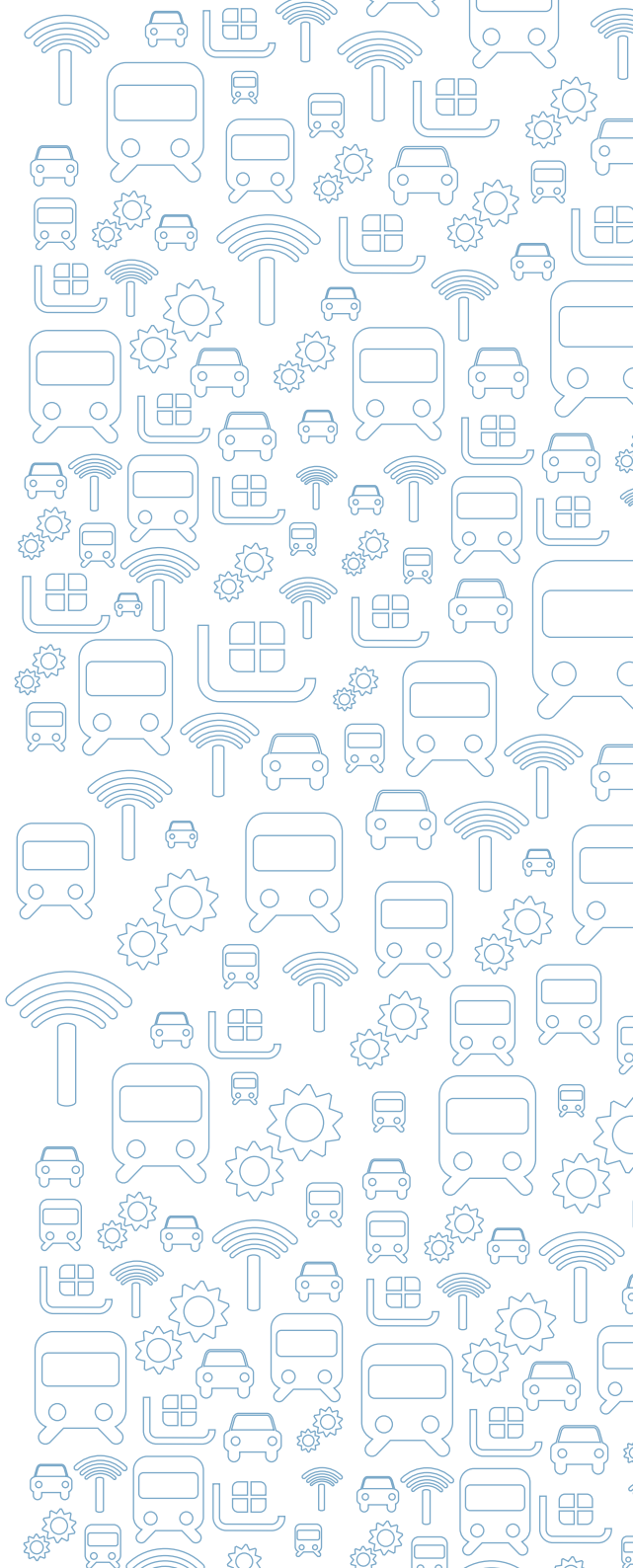
In the field of the international research and cooperation, the year 2012 was the year when the big international project INESS was completed after more than three years.

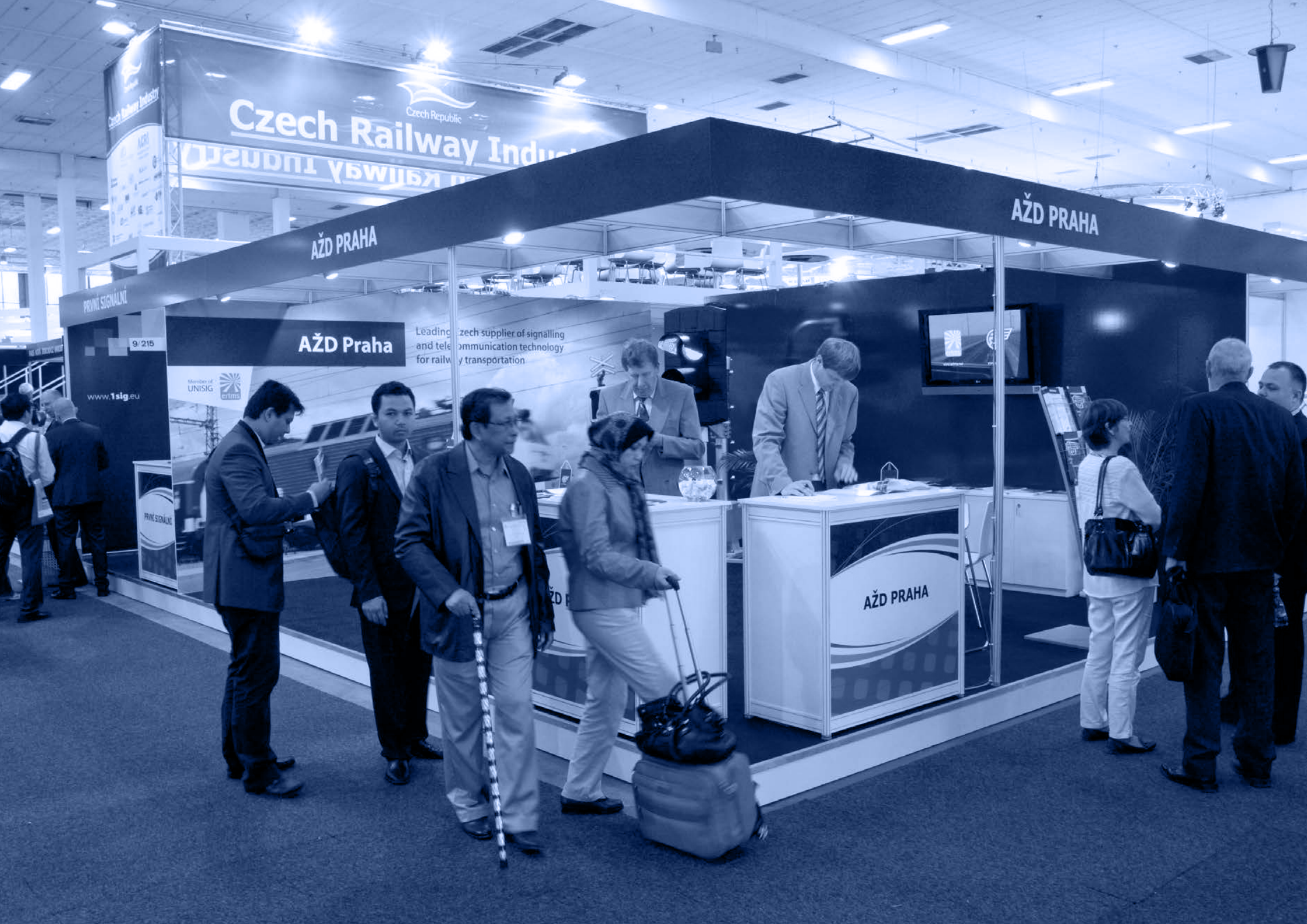
The objective of the project supported by the 7th framework program of the EU was the standardization of interlocking equipment to be used together with ETCS. The results of this project and descriptions of standardized interfaces were published. Another big project, which will be completed in 2012/2013, is the TIU Specification (unified train interface), which will enable a simple integration of the equipment placed on a driving car and integration of the car. The implementation of such specification will significantly reduce investment costs of the driving cars manufacturers and car signalling equipment suppliers. The project took more than three years, was financed from the budgets of the involved companies and in its second half obtained the EU support from the TEN-

T budget. Driving cars manufacturers and signalling equipment suppliers associated in UNISIG participated in the TIU project, which significantly reduced their investment costs thanks to the implementation of its specifications.

In addition to the international cooperation, our company is an active member of ACRI, where we significantly participate for example in the operation of ACRI Technical Standardization Centre in the fields of CEN and CENELEC. We are involved in the working subgroups of CENELEC – Technical Commission 9X – Electric and electronic equipment for railways for individual negotiated standards not only via the cited centre but also directly. Last but not least, it is necessary to mention the membership on the Technical Interoperability Platform SIZI, on the Economic Chambers of the Czech Republic and the City of Prague and on the important Union of Industry and Transport.

AŽD Praha's experts working in individual organizations, committees and research projects spread the good name of our company.




Czech Railway Industry
Czech Republic
AŽD PRAHA
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PRVNÍ SIGNÁLNÍ
9/215
AŽD Praha
Leading Czech supplier of signalling and telecommunication technology for railway transportation
www.1sig.eu
Member of UNISIG
AŽD PRAHA

FINANCIAL RESULTS

The fiscal year 2011/2012 was affected by the continuing world-wide economic crisis.

The company management eliminated negative influences and continued in the good results of the previous years due to its active business policy.

The turnover in the amount of CZK 4.1 billion for the fiscal year 2011/2012 is slightly higher in comparison with the previous period, despite the reduction of construction work. The company management compensates the decrease in the volume of construction work in the Czech Republic by the entry to foreign markets, where our technologies are gradually placed. Signalling systems, however, must be adapted for every foreign locality to local laws and transport regulations and follow from the already operated technology and customs, including the control in the language in question. In certain countries, the entire signalling system must undergo a local approval process. The entry to foreign markets is therefore significantly demanding in terms of technical equipment and technology, business and time, but it is a long-time resolution aimed at our stabilization and prosperity.

The working capacity is being adapted to our company's business needs. The number of employees in the period monitored was 1,526, which is a year-to-year reduction by 31 employees.

Our company spent CZK 214 million for the research and development in the period monitored. The composition of our assets is significantly affected by receivables, mainly receivables within the due date, since a long due date period of our invoices is set forth in the tender conditions of most our contracts. The contractual distribution of the due dates of individual parts of work supports the sale, especially in the case of foreign contracts. Shown receivables are recoverable and paid within the due dates.

In the period monitored, the company showed non-tax reserves for a new generation of electronic signalling systems, which undergo a long-term testing operation and for which our company confirmed five-year guarantees.

Our company's financing is stabilized. The turnover is proportionately reflected in trade creditors accounts and drawing on bank loans.

Our company acquired no assets through financial lease and has neither due liability in the field of the health and social insurance nor tax underpayments. Our company established branches in the Slovak Republic and Montenegro.

Our company holds controlling and substantial interests in ten subsidiaries in the Czech Republic and nine subsidiaries in foreign countries (Slovakia (3), Bulgaria, Serbia, USA, Montenegro, Belarus and Ukraine).

With regard to the continuing world-wide crisis, our company's plans for the revenues in the period monitored were adjusted and the volume of our profits corresponds with the plans due to the careful cost management.

No significant events fundamentally affecting our company's business occurred in the period between September 30, 2012 and the time when this report was compiled.

The assumed development of our company's business is stable and conditions for the further development of our company have been created, in particular by the development of our businesses in foreign countries.

MAIN FINANCIAL INDICATORS OF AŽD PRAGUE S.R.O

For business year 2011/2012 – from October 1, 2011 till September 30, 2012

Company accounting period is always from October 1 till September 30 of subsequent year

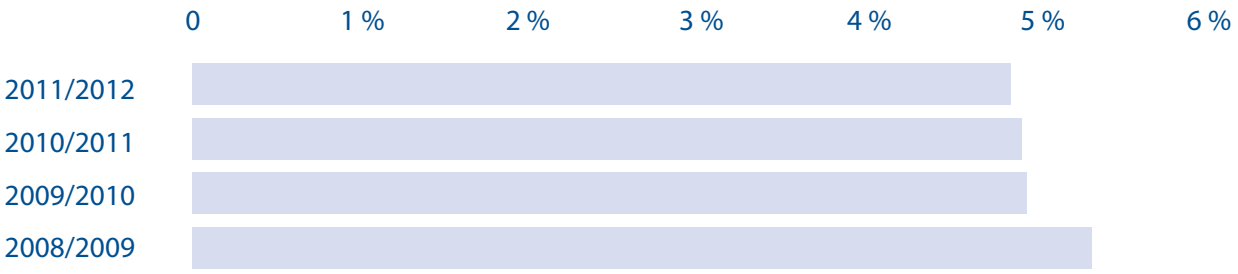
Indicator / period	2008/2009	2009/2010	2010/2011	**2011/2012**
Turnover in thous. CZK	5 280 867	4 339 761	3 695 308	**4 140 424**
Profit after tax	275 148	216 790	184 408	**205 700**
Profit from turnover %	5,21	5,00	4,99	**4,97**
Value added tax	1 378 281	1 187 573	992 579	**1 043 082**
Bank loans	1 104 031	824 323	672 808	**701 143**
Employees-full time equivalent	1 867	1 754	1 557	**1 526**

Company turnover / Employees – full time equivalent

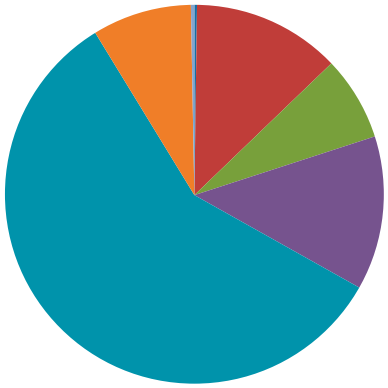
Indicator/period	2008/2009	2009/2010	2010/2011	**2011/2012**
Turnover in mill. CZK	5 281	4 340	3 695	**4 140**
Employees-full time equivalent	1 867	1 754	1 557	**1 526**

Profit from turnover

Indicator / period	2008/2009	2009/2010	2010/2011	**2011/2012**
Profit from turnover %	5,21	5,00	4,99	**4,97**

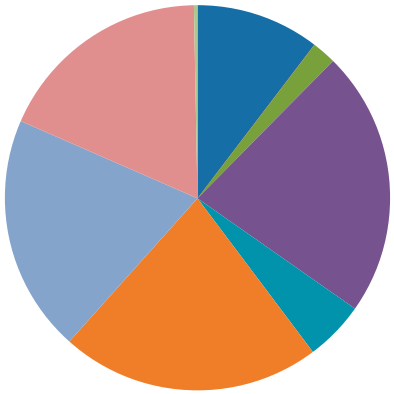


COMPOSITION OF ASSETS AS AT SEP. 30, 2012 (in thousand CZK)



Long-term intangible fixed assets	7 739
Long-term tangible fixed assets	496 084
Long-term financial assets	260 872
Inventories	597 702
Receivables	2 004 190
Financial assets	315 391
Accruals	14 719
Assets total	**3 696 697**

COMPOSITION OF LIABILITIES AS AT SEP. 30, 2012 (in thousand CZK)



Registered capital	384 436
Capital funds	67
Funds from profit	75 840
Retained earnings from previous years	827 649
Profit of 2011/2012	205 700
Reserves	790 510
Liabilities	705 708
Bank loans and other creditors	701 143
Accruals	5 644
Liabilities total	**3 696 697**

BALANCE SHEET

as at 30. 9. 2012 (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	4 495 511	798 814	**3 696 697**	3 703 161
A.	Receivables from subscriptions	002				
B.	**Fixed assets (r. 04 + 13 + 23)**	003	1 495 330	730 635	**764 695**	741 836
B. I.	**Intangible fixed assets (r. 05 to 12)**	004	89 797	82 058	**7 739**	10 050
B. I. 1	Incorporation expenses	005				
2	Research and development	006				
3	Software	007	84 624	77 518	**7 106**	9 172
4	Valuable rights	008	4 684	4 173	**511**	791
5	Goodwill (+/–)	009				
6	Other intangible fixed assets	010	389	367	**22**	87
7	Intangible fixed assets under construction	011	100		**100**	
8	Advance payments for intangible fixed assets	012				
B. II.	**Tangible fixed assets (r. 14 to 22)**	013	1 110 795	614 711	**496 084**	466 469
B. II. 1	Lands	014	133 266		**133 266**	100 979
2	Constructions	015	460 129	204 738	**255 391**	268 858
3	Equipment	016	699 354	601 341	**98 013**	95 202
4	Perennial corps	017				
5	Breeding and draught animals	018				
6	Other tangible fixed assets	019				
7	Tangible fixed assets under construction	020	9 198		**9 198**	1 430
8	Advance payments for tangible fixed assets	021	216		**216**	
9	Adjustment to acquired assets	022	–191 368	–191 368		
B. III.	**Long-term financial assets (r. 24 to 30)**	023	294 738	33 866	**260 872**	265 317
B. III. 1	Shares in controlled and managed organizations	024	162 411	33 866	**128 545**	127 192

Identif. a			ASSETS b	Row c	Current accounting period			Previous period
					Gross 1	Adjustment 2	**Net 3**	Net 4
		2	Shares in accounting units with substantial influence	025	29 807		**29 807**	29 800
		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	2 265		**2 265**	8 070
		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	2 985 462	68 179	**2 917 283**	2 951 296
C.	I.		**Inventory (r. 33 to 38)**	032	602 002	4 300	**597 702**	484 514
C.	I.	1	Materials	033	330 793		**330 793**	315 526
		2	Work in progress and semi-products	034	270 703	4 300	**266 403**	164 247
		3	Finished products	035				
		4	Animals	036				
		5	Merchandise	037				
		6	Advance payments for inventory	038	506		**506**	4 741
C.	II.		**Long-term receivables (r. 40 to 46)**	039	603 286	1 923	**601 363**	619 815
C.	II.	1	Trade receivables	040	456 173	1 923	**454 250**	469 654
		2	Receivables from controlled and managed organizations	041				
		3	Receivables from accounting units with substantial influence	042				
		4	Receivables from partners, cooperative members and association members	043				
		5	Estimated receivable	044				
		6	Long-term deposits given	044a	1 211		**1 211**	1 157
		7	Other receivables	045				

Identif. a			ASSETS b	Row c	Current accounting period			Previous period
					Gross 1	Adjustment 2	**Net 3**	Net 4
		8	Deffered tax receivable	046	145 902		**145 902**	149 004
C.	III.		**Short-term receivables (r. 48 to 56)**	047	1 464 783	61 956	**1 402 827**	1 535 422
C.	III.	1	Trade receivables	048	1 184 220	49 956	**1 134 264**	1 259 496
		2	Receivables from controlled and managed organizations	049	195 111	12 000	**183 111**	226 210
		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	30 887		**30 887**	35 847
		7	Other deposits given	054	7 699		**7 699**	7 924
		8	Estimated receivable	055	4 007		**4 007**	3 027
		9	Other receivables	056	42 859		**42 859**	2 918
C.	IV.		**Short-term financial assets (r. 58 to 61)**	057	315 391		**315 391**	311 545
C.	IV.	1	Cash	058	5 508		**5 508**	3 765
		2	Bank accounts	059	309 883		**309 883**	307 780
		3	Short-term securities and ownership interests	060				
		4	Short-term financial assets acquired	061				
D.	I.		**Accruals (r. 63 to 65)**	062	14 719		**14 719**	10 029
D.	I.	1	Deferred expenses	063	14 663		**14 663**	10 028
		2	Complex deferred costs	064				
		3	Deferred income	065	56		**56**	1

Označení a			Liabilities b	Row c	**Current period 5**	Previous period 6
			TOTAL LIABILITIES (r. 67 + 84 + 117)	066	**3 696 697**	3 703 161
A.			**Equity (r. 68 + 72 + 77 + 80 + 83)**	067	**1 493 692**	1 472 338
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	**67**	–568
A.	II.	1	Share premium	073		
		2	Other capital funds	074	**555**	376
		3	Diferences from revaluation of assets and liabilities	075	**–488**	–944
		4	Diferences from revaluation in tranformation	076		
A.	III.		**Reserve funds, statutory reserve account for cooperatives, and other retained earnings (r. 78 + 79)**	077	**75 840**	75 692
A.	III.	1	Legal reserve fund / indivisible fund	078	**73 732**	73 732
		3	Statutory and other funds	079	**2 108**	1 960
A.	IV.		**Profit/loss – previous year (r. 81 + 82)**	080	**827 649**	828 370
A.	IV.	1	Retained earnings from previous years	081	**827 649**	828 370
		2	Accumulated losses from previous years	082		
A.	V.		**Profit / loss – current year (+/–) /r.01 – (+ 68 + 72 + 77 + 80 + 84 + 117)/**	083	**205 700**	184 408
B.			**Other sources (r. 85 + 90 + 101 + 113)**	084	**2 197 361**	2 229 811
B.	I.		**Reserves (r. 86 to 89)**	085	**790 510**	813 658
B.	I.	1	Reserves under special statutory regulations	086		940
		2	Reserves for pension and similar payables	087		
		3	Income tax reserves	088		
		4	Other reserves	089	**790 510**	812 718

Označení a			Liabilities b	Row c	**Current period 5**	Previous period 6
B.	II.		**Long-term payables (r. 91 to 100)**	090	**21 557**	21 470
B.	II.	1	Trade payables	091	**21 557**	21 470
		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		
B.	III.		**Short-term payables (r. 102 to 112)**	101	**684 151**	721 875
B.	III.	1	Trade payables	102	**458 202**	403 722
		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	**20**	52 020
		5	Payroll	106	**75 259**	61 397
		6	Payables to social securities and health insurance	107	**41 009**	37 389
		7	Due from state – tax liabilities and subsidies	108	**30 015**	30 106
		8	Short-term deposits received	109	**29 133**	29 985
		9	Issues bonds	110		
		10	Estimated payables	111	**50 506**	107 249
		11	Other payables	112	**7**	7
B.	IV.		**Bank loans and financial accomodations (r. 114 to 116)**	113	**701 143**	672 808

Označení a			Liabilities b	Row c	**Current period 5**	Previous period 6
B.	IV.	1	Long-term bank loans	114		
		2	Short-term bank loans	115	**701 143**	672 808
		3	Short-term accomodations	116		
C.	I.		**Accruals (r. 118 + 119)**	117	**5 644**	1 012
C.	I.	1	Accrued expenses	118	**481**	250
		2	Deffered revenues	119	**5 163**	762

PROFIT/LOSS ACCOUNT

as at 30. 9. 2012 (in thousands of Czech Crowns)

Identif. a	TEXT b	Row c	Fiscal period	
			Current 1	Previous 2
I.	Revenues from sold goods	01	**387 448**	371 504
A.	Expenses on sold goods	02	**340 242**	327 118
+	**Sale margin (r. 01 – 02)**	03	**47 206**	44 386
II.	**Production (r. 05 + 06 + 07)**	04	**3 861 848**	3 540 123
II. 1	Revenues from own products and services	05	**3 235 033**	3 133 475
2	Change in inventory of own products	06	**102 643**	–106 207
3	Capitalisation	07	**524 172**	512 855
B.	**Production consumption (r. 09 +10)**	08	**2 865 972**	2 591 930
B. 1	Consumption of material and energy	09	**2 561 873**	2 244 464
B. 2	Services	10	**304 099**	347 466
+	**Added value (r. 03 + 04 – 08)**	11	**1 043 082**	992 579
C.	**Personnel expenses**	12	**871 345**	812 058
C. 1	Wages and salaries	13	**644 405**	601 420
C. 2	Renumeration of board members	14	**630**	
C. 3	Social security expenses and health insurance	15	**215 151**	207 986
C. 4	Other social expenses	16	**11 159**	2 652
D.	Taxes and fees	17	**4 278**	4 273
E.	Depreciations of intangible and tangible assets	18	**63 150**	76 819
III.	**Revenues from disposals of fixed assets and materials (r. 20 + 21)**	19	**276 692**	209 923
III. 1	Revenues from disposals of fixed assets	20	**641**	10 623

Identif. a	TEXT b	Row c	Fiscal period	
			Current 1	Previous 2
2	Revenues from disposals of materials	21	**276 051**	199 300
F.	**Net book value of diposed fixed assets and materials (r. 23 + 24)**	22	**180 577**	141 565
F. 1	Net book value of sold fixed assets	23	**63**	9 525
F. 2	Net book value of sold material	24	**180 514**	132 040
G.	Change in operating reserves and adjustments and complex deferred costs (+/–)	25	**–9 323**	–56 029
IV.	Other operating revenues	26	**28 086**	30 524
H.	Other operating expenses	27	**37 185**	36 632
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	**200 648**	217 708
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	**45 559**	28 794
VII. 1	Revenues from shares in controlled and managed organizations and in accounting units with subsantial influence	34	**44 090**	27 774
VII. 2	Revenues from others securities and ownership interests	35	**1 469**	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		
L.	Cost of revaluation of securities and derivatives	40		
M.	Change in financial reserves and adjustments	41	**–800**	1 879

Identif. a	TEXT b	Row c	Fiscal period	
			Current 1	Previous 2
X.	Interest revenues	42	**42 920**	7 246
N.	Interest expenses	43	**15 434**	13 625
XI.	Other financial revenues	44	**22 042**	20 049
O.	Other financial expenses	45	**62 329**	53 918
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	**33 558**	–13 333
Q.	**Income tax on ordinary income (ř. 50 + 51)**	49	**28 506**	19 967
Q. 1	Due tax	50	**25 404**	17 690
Q. 2	Tax deferred	51	**3 102**	2 277
**	**Operating profit / loss ordinary activity (ř. 30 + 48 – 49)**	52	**205 700**	184 408
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	**205 700**	184 408
	Profit / loss before tax (+/–) (ř. 30 + 48 + 53 – 54)	61	**234 206**	204 375

AUDITOR'S REPORT AND SUPERVISORY BOARD'S ANNUAL REPORT

AUDITOR'S REPORT ON VERIFICATION OF THE FINAL ACCOUNTS FOR THE PERIOD FROM OCTOBER 1, 2011 TO SEPTEMBER 30, 2012

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, 2012, profit and loss statement for fiscal year ending on September 30, 2012, summary of changes to the equity capital and cash flow summary for the fiscal year ending on September 30, 2012, 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, 2012, and of the expenses, revenues, business results, equity capital and cash flow achieved during the period ending on September 30, 2012 in compliance with Accounting Act and relevant regulations of the Czech Republic.

Auditing company:
EKMA FIN, a.s.
Registered office: Ondříčkova 609/27, 130 00 Praha 3
Auditing company's certificate No.: 076

Report elaborated by: Ing. Jana Buková, auditor
Auditor's certificate No.: 1214
Date: December 14, 2012

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 2011/2012

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 14, 2012.

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, 2012, and of the expenses, revenues, business results and cash flow achieved during the period ending on September 30, 2012 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.

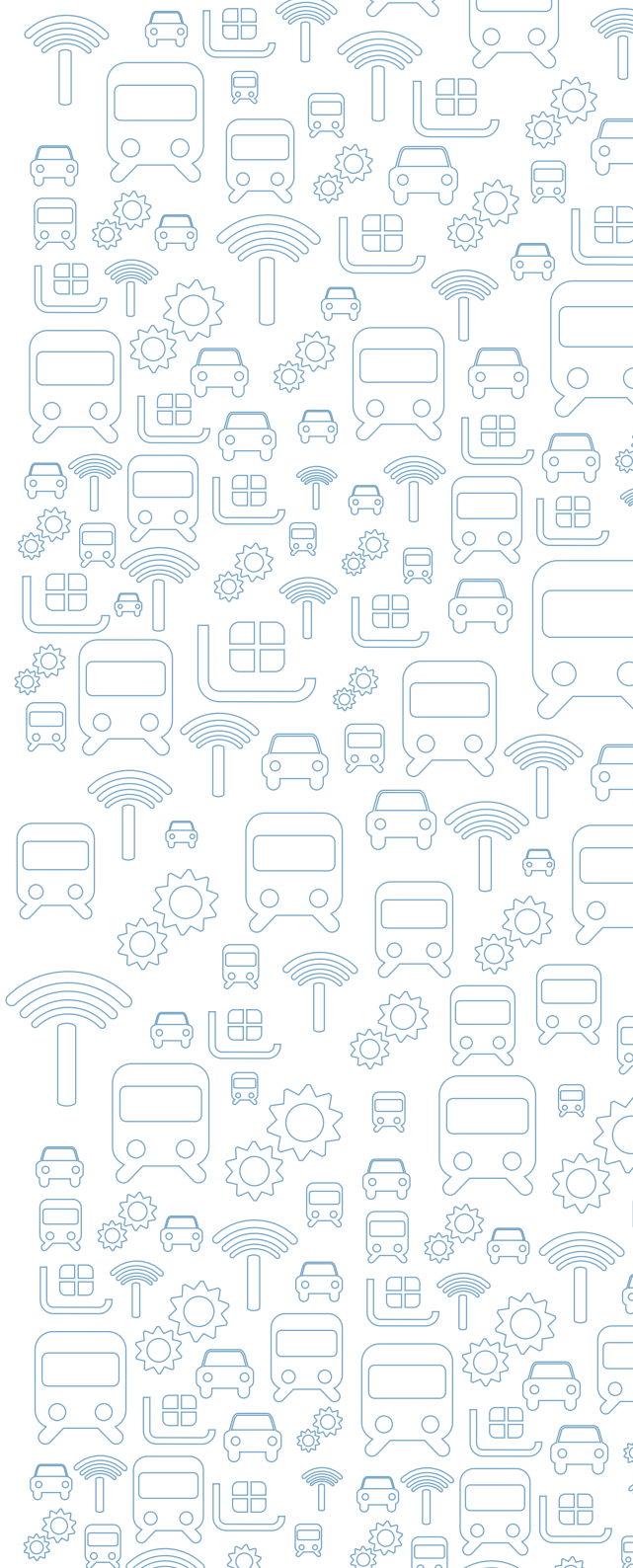
The Supervisory Board therefore advises the General Assembly to approve the final accounts of AŽD Praha as at September 30, 2012 including the profit and loss statement and profit distribution proposal for the cited fiscal period.

Daniela Veselá

In Prague, on January 23, 2013

MANDATORY APPENDICES:

ANNEX 1: Annex to AŽD Praha s.r.o. Final Accounts for 2011/2012
ANNEX 2: Cash Flow Summary
ANNEX 3: Summary of changes to Equity Capital for 2011/2012
ANNEX 4: Report on relations between Interconnected Persons pursuant to Paragraph 66a of the Commercial Code of the Czech Republic for the fiscal period 2011/2012



This Annual Report has been prepared pursuant to the applicable Accounting Act
and reflects the situation as at September 30, 2012.