

## ČESKÁ KONSOLIDAČNÍ AGENTURA

# CONSOLIDATED ANNUAL REPORT 2004

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## INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE GENERAL MANAGER



Ladies and Gentlemen,

Allow me to submit the Consolidated Annual Report of Česká konsolidační agentura for 2004. This was definitely a period that may be labelled as a turning point in the existing current history of this institution as a turning point, not only in terms of the results achieved, but in particular thanks in particular to the implemented systemic changes that were

implemented.

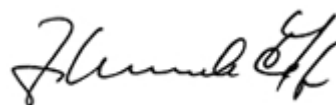
The reason for the extensive restructuring that ČKA underwent in 2004 was the Czech Government's requirement that the Agency should wind up its activities by 2007. Consequently, the changed management team -which joined the Agency in April, in collaboration with a renowned consulting company, immediately commenced work on Project 2007. The key aspect of ČKA's new structure were changes in its portfolio segmentation. These changes were primarily aimed at maximising the utilised percentage of assets while complying with the determined deadlines and enhancing the transparency of all activities. Together with portfolio segmentation, the organisational structure was also modified. The existing processes have been adjusted too, with the particular aim of allocating clear responsibility for the successful solution of any business cases. Last but not least, these changes involved a radical reduction of employee numbers and increasing the motivation of retained staff.

Česká Konsolidační Agentura enters the year 2005 with high ambitions. These ambitions may also be bolstered by the financial result achieved for 2004, especially the fact that a loss of CZK 3.5 billion is the lowest in the Agency's history. Other indicators are also optimistic. While the collection of receivables increased in year-on-year terms (amounting to CZK 33.8 billion and thus exceeded the financial result of 2003 by CZK 1 billion), at the same time ČKA succeeded in the reduction of operating costs and employee numbers. In comparison with 2003, the Agency's net assets and liabilities dropped by almost one third, amounting to CZK 121.1 billion. The Agency successfully completed the long-term process of assuming assets of the former IPB from ČSOB, and performed the general settlement of the state provided guarantee with Komerční Banka, a.s. During the course of the year, ČKA absorbed a significant tranche of receivables from debtors of health insurance companies and issued or arranged several issues of bonds. Through its active approach, the Agency resolved a number of ownership interests and credit relationships. The most important ones include: ČKD PRAHA HOLDING, a.s., UNIPETROL, a.s., TRUSTFIN, s.r.o., ZVI a.s., Oskar Mobil, a.s., Korado, a.s. and INTEGRA, a.s. Also very promising was the commencement of the sale of blocks of receivables from the portfolio of ČKA's subsidiary Konpo, s.r.o.

The year 2005 is marked by the numbers 50 and 10. We plan to reduce the Agency's loss (approximately to CZK 1.7 billion) by more than 50 per cent and at the same time cut operating costs by at least 10%. The important thing is that for the first time in ČKA's history, there will be absolutely no claims by ČKA for the redemption of losses from the government budget. These objectives should be fulfilled in particular, by way of successful business policy that anticipates further reduction of total assets and liabilities by approximately one half, to the planned CZK 65 billion by the end of 2005. The fact that these plans are realistic is proven by our experience in the first months of 2005, namely from both individual sales and from the sales of blocks of receivables. In particular, extremely high proceeds from the bankruptcy and non-bankruptcy block of Konpo, s.r.o. make us optimistic with regard to further similar transactions. The largest of these sales, the block sale from the portfolios of all companies of the ČKA financial group, will be commenced on 20th May.

I am convinced that Česká Konsolidační Agentura is well prepared to fulfill its primary objective, which is to contribute to the completion of economic transformation in the Czech Republic, with the lowest possible costs for public budgets. The whole of the current team is ready to work hard to ensure that the year 2005 belongs to the successful periods of ČKA's history.

Prague, 13 May 2005



Zdeněk Čáp, Ph.D.  
Chairman of the Board of Directors and Managing  
Director

## PROFILE

Česká konsolidační agentura (ČKA, Agency), a state institution which administers low-quality assets in the Czech Republic, came into being through its transformation as a legal successor of the government financial institution, Konsolidační banka Praha, s.p.ú. (KOB Praha, s.p.ú.), as at 1 September 2001 based on Act No. 239/2001 Coll., on Česká konsolidační agentura, when it was established as a non-banking entity with a mission to proactively, transparently and quickly resolve most of the doubtful assets and minimize the loss of such a solution. ČKA is not a bank, as stipulated by the law, it does not receive deposits from the public nor does it extend new loans, however, when completing the activities of KOB Praha, s.p.ú. it is authorized to use any tools which KOB Praha, s.p.ú. had available. The state guarantees all ČKA's liabilities.

The deadline for the termination of the Agency's activities, determined by the Czech Government Resolution No. 45 of 14 January 2004, is stipulated by the appropriate Article 20 of the Act on ČKA in its existing wording, according to which the Agency shall cease to exist on 31 December 2007 without liquidation and its rights and obligations shall be completely transferred to the Czech state.

For the compensation of unpaid losses which came into being especially through the takeover of low-quality assets from 1991 through 2003, Act No. 5/2005, concerning government bond programmes which cover part of the loss of Česká konsolidační agentura, was passed and amounts to CZK 63,300,000 ths. while any other losses are paid by the Agency out of its own special-purpose reserve fund or, based on concluded agreements, they are paid by the National Property Fund.

In the year 2004, in order to ensure the efficient and transparent settlement of the maximum possible amount of assets before the end of the Agency's activities, a new business strategy for the settlement of assets was realized. This includes, most notably, the performance of a new segmentation of the loan assets portfolio, the optimization of processes and strategies for the settlement of individual segments and their migration into the new organization, as well as the introduction of an incentive system for material interest in the maximum utilization percentage in respect of these assets.

Out of the settlement of the above receivables, the Agency received more than thirty billion crowns of cash collections in each of the last 2 years in the form of collected, received repayments and selling prices on the receivables being assigned to new acquirers, or rather payments received within bankruptcy proceedings, seizures or the sale of securities, and the Agency decreased the volume of unpaid balances of loan assets as at 31 December 2004 to CZK 135 billion of their face value. Despite their extraordinarily low-quality and, according to the classification, nearly 100% loss-rate, the achieved utilization percentage of assigned receivables is very positive and on average it exceeded 20% of their face value in the year 2004.

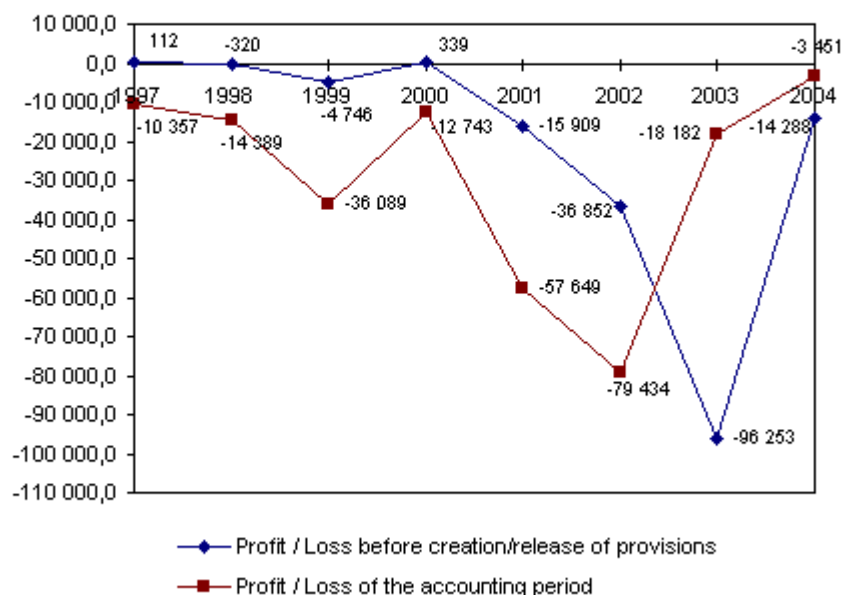
Due to the volume of valuation allowances and reserves generated to cover anticipated losses, as well as the available volume of the special-purpose reserve fund, also designed to cover anticipated losses on defined loans (potentially due to the real value of investment assets), it is

supposed that the prepared settlement of these assets would not be related to significant business losses in profit and loss accounts in the period leading up to the termination of the Agency's activities.

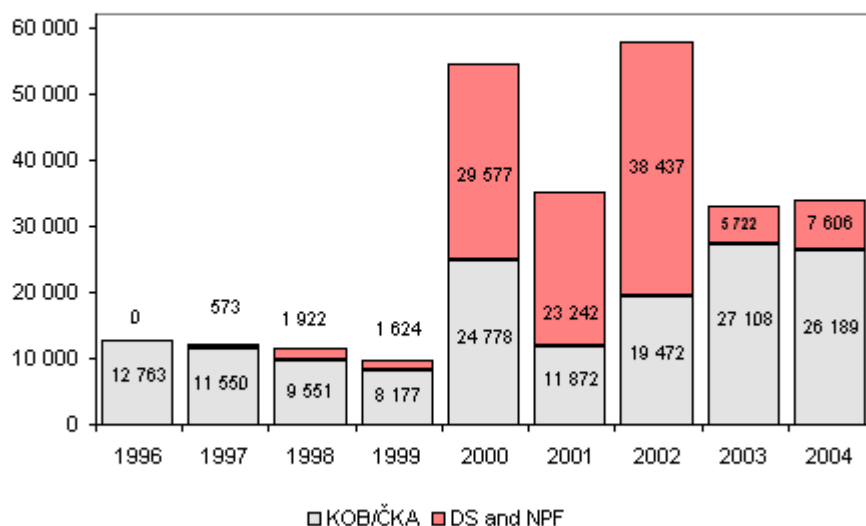
In the ČKA financial group companies, especially in Konpo, s.r.o. and Česká finanční, s.r.o. subsidiaries, a system of standards similar to that of the parent company is applied for the settlement of assets. Their strategy is a homogenous part of the financial group's strategy for the settlement of assets while, after the termination in the year 2005 and depending on the volume of residual assets, their entry into liquidation is anticipated.

SELECTED INDICATORS - GRAPHS

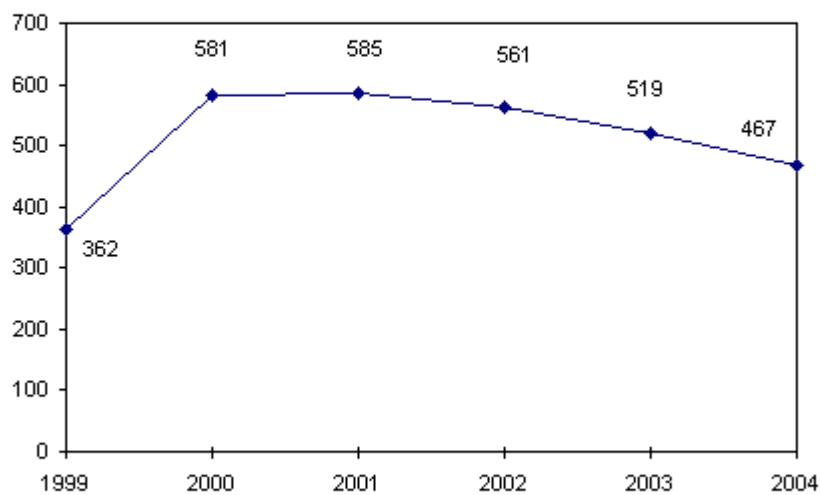
Profit / Loss 1997 - 2004 (CZK million)



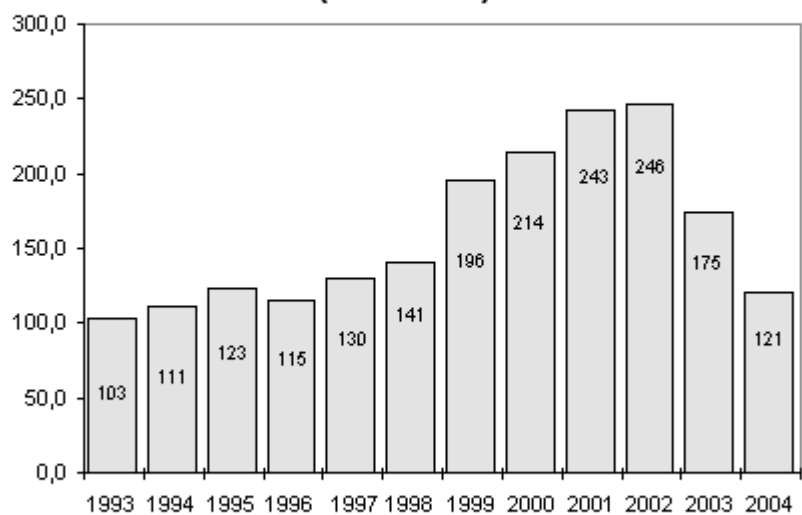
Receipt collection 1996 - 2004 (CZK million)



**Average Number of Employees 1999 - 2004**

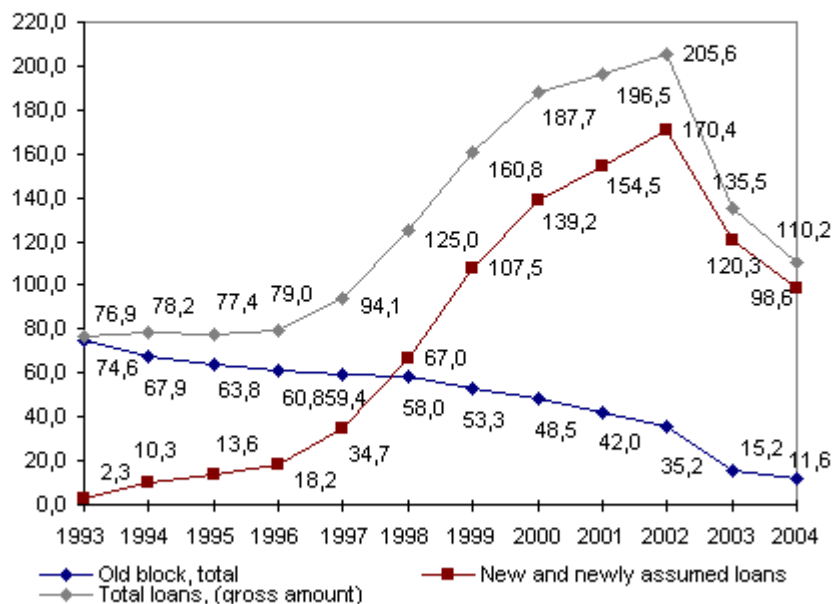


**Development of total assets/liabilities 1993 - 2004  
(CZK billion)**

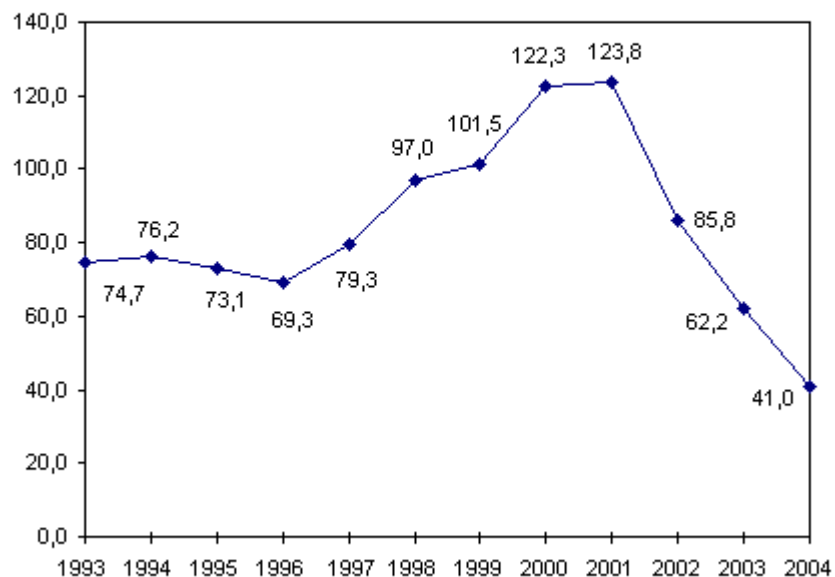




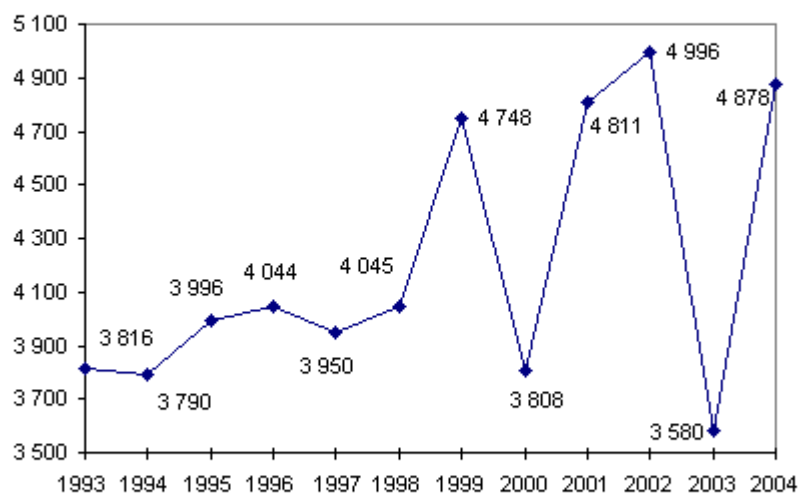
**Receivables from loans 1993 - 2004  
(CZK billion)**



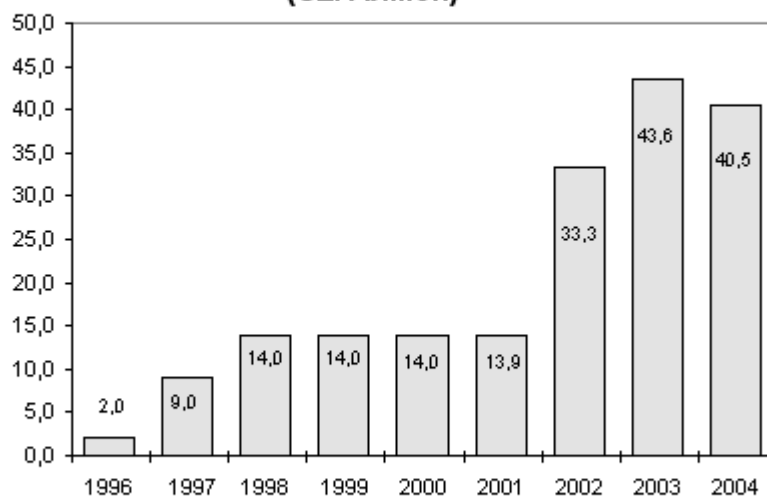
**Due from Customers (net amount) 1993 - 2004  
(CZK billion)**



**Number of clients 1993 - 2004**



**Securities issued 1996 - 2004  
(CZK billion)**



### Summary of results

	2002	2003	2004
Cash proceeds (in CZK bln.)	57.9	32.8	33.8
Profit/loss for the year (-) (in CZK bln)	(79.4)	(18.2)	(3.5)
Wages and social expences (in CZK mil.)	424.0	417.0	416.0
Balance sheet sum (in CZK bln)	246.4	174.5	121.0
Equity (in CZK bln.)	29.0	17.0	14.9
Reserve funds (in CZK bln.)	26.0	23.0	10.8
Loans to customers (in CZK bln. of net book value)	85.8	62.2	41.0
Number of employees (physical persons as at year end)	562	521	374

## Development of KOB/ČKA from 1993 to 2004 in figures

Aggregate Balance Selected items CZK billion	Czech Republic											
	KOB, s.p.ú. In liquidation								ČKA			
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 GL as per 15 March 2004	2004 GL as per 9 March 2005
<b>Selected assets</b>												
Due from banks (net amount)	2,1	6,9	7,1	7,2	9,5	13,6	15,6	20,9	32,4	53,3	2,3	0,5
Total due	74,7	76,2	73,1	69,3	79,3	97,0	101,5	122,3	123,8	85,8	62,2	41,0
Securities - net amount (debt, shares, mutual shares)	8,1	3,2	18,2	18,8	17,6	15,4	15,4	0,3	4,8	2,6	13,3	6,1
Participation interests (net amount)	-	10,4	10,6	10,5	8,6	9,1	9,9	5,6	3,9	5,0	5,0	5,1
<b>Selected liabilities</b>												
Redistribution loan	38,8	38,8	38,8	36,8	36,8	32,4	28,3	12,8	11,7	10,7	9,7	8,8
Due to banks	29,1	27,2	26,2	25,6	41,0	57,4	101,1	110,9	102,6	102,0	84,9	40,5
Due to customers	7,6	12,3	9,5	8,5	5,9	3,8	4,5	11,7	29,3	30,3	8,1	11,6
Securities issued	-	-	-	2,0	9,0	14,0	14,0	14,0	13,9	33,3	43,6	40,5
Provisions	1,8	5,8	6,1	6,3	6,3	6,3	7,4	13,0	44,0	38,4	4,0	2,6
Reserve fund	17,1	17,4	32,4	32,2	31,5	31,4	31,4	31,4	29,3	26,0	23,0	10,8
Share capital	5,0	5,9	5,9	5,9	5,9	5,9	5,9	5,9	5,9	5,9	5,9	5,9
<b>Total Assets/Liabilities</b>	<b>103,1</b>	<b>110,5</b>	<b>123,3</b>	<b>114,8</b>	<b>129,7</b>	<b>141,1</b>	<b>195,7</b>	<b>214,2</b>	<b>242,7</b>	<b>246,4</b>	<b>174,5</b>	<b>121,0</b>

Loan portfolio (CZK billion)												
- Loans for working capital (TOZ)	62,3	55,7	49,7	42,3	39,4	37,7	33,0	29,5	25,9	21,7	9,9	7,8
- Purchased loans (KB,IB)	12,3	12,2	11,4	9,9	9,2	9,1	8,4	8,0	6,0	5,3	3,4	2,0
- Restructured loans	-	-	2,7	8,6	10,8	11,2	11,9	11,0	10,1	8,1	1,9	1,8
<b>Old block, total</b>	<b>74,6</b>	<b>67,9</b>	<b>63,8</b>	<b>60,8</b>	<b>59,4</b>	<b>58,0</b>	<b>53,3</b>	<b>48,5</b>	<b>42,0</b>	<b>35,2</b>	<b>15,2</b>	<b>11,6</b>
<b>New and newly assumed loans</b>	<b>2,3</b>	<b>10,3</b>	<b>13,6</b>	<b>18,2</b>	<b>34,7</b>	<b>67,0</b>	<b>107,5</b>	<b>139,2</b>	<b>154,5</b>	<b>170,4</b>	<b>120,3</b>	<b>98,6</b>
of which: loans assumed to DBV						15,0	13,7	12,6	11,5	10,4	9,5	8,6
EIB developmnet loans						12,9	18,0	-	-	-	-	-
from IPB/ČSOB									23,3	80,3	55,3	46,3
<b>Total loans, (gross amount)</b>	<b>76,9</b>	<b>78,2</b>	<b>77,4</b>	<b>79,0</b>	<b>94,1</b>	<b>125,0</b>	<b>160,8</b>	<b>187,7</b>	<b>196,5</b>	<b>205,6</b>	<b>135,5</b>	<b>110,2</b>
Provisions	-2,2	-2,0	-4,4	-9,7	-14,8	-28,1	-59,3	-65,4	-72,7	-119,8	-73,3	-69,2
<b>Total loans (net amount)</b>	<b>74,7</b>	<b>76,2</b>	<b>73,0</b>	<b>69,3</b>	<b>79,3</b>	<b>97,0</b>	<b>101,5</b>	<b>122,3</b>	<b>123,8</b>	<b>85,8</b>	<b>62,2</b>	<b>41,0</b>

Number of credit clients												
TOZ clients	3 711	3 715	3 839	3 752	3 625	3 655	3 246	2 164	1 809	1 353	652	557
<b>Total clients (less DBV)</b>	<b>3 816</b>	<b>3 790</b>	<b>3 996</b>	<b>4 044</b>	<b>3 950</b>	<b>4 045</b>	<b>4 748</b>	<b>3 808</b>	<b>4 811</b>	<b>4 996</b>	<b>3 580</b>	<b>4 878</b>

Securities portfolio (CZK billion)												
Debt securities	3,0	3,1	18,2	18,6	17,4	15,4	15,4	0,3	3,1	1,1	1,5	0,5
Shares, mutual shares and other interests	5,1	0,1	0,0	0,2	0,2	0,0	0,0	0,0	1,7	1,5	11,8	5,6
<b>Total securities</b>	<b>8,1</b>	<b>3,2</b>	<b>18,2</b>	<b>18,8</b>	<b>17,6</b>	<b>15,4</b>	<b>15,4</b>	<b>0,3</b>	<b>4,8</b>	<b>2,6</b>	<b>13,3</b>	<b>6,1</b>

Participation interests (CZK billion)												
Participation interests (gross amount)		10,4	10,6	10,6	14,1	15,4	14,9	11,5	10,8	13,3	13,4	9,6
Provisions		-	-	-0,1	-5,5	-6,3	-5,0	-5,8	-6,9	-8,4	-8,4	-4,5
Participation interests (net amount)	-	10,4	10,6	10,5	8,6	9,1	9,9	5,7	3,9	5,0	5,0	5,1

Profit/Loss development (CZK million)												
Profit/Loss before creation and usage of provisions	2 671,0	4 047,0	2 597,9	754,3	111,8	-320,1	-4 746,4	339,1	* -15 909,2	-36 851,7	-96 253,1	-14 288,2
of which: CKA									** -3 323,0	x	x	
Profit/Loss for the accounting period (after deduction of income tax)	959,8	9,3	2,1	-5 058,6	-10 356,8	-14 389,1	-36 089,2	-12 742,5	* -57 648,9	-79 433,5	-18 181,8	-3 451,2
of which: CKA									** -16 122,5	x	x	

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Loan portfolio (gross) -classification												
Old block total (CZK billion)	74,6	67,9	63,8	60,8	59,4	58,0	53,3	48,5	42,0	35,2	15,2	11,6
of which: classified (CZK billion / %)				50,8/ 83,6	54,6/ 91,9	54,7/94,3	53,3/100	48,5/100	41,9/99,7	35,2/100,0	15,1/99,3	11,6/100
loss making (CZK billion / %)				39,7/ 65,3	44,9/ 75,6	51,8/89,3	52,4/98,3	48,1/99,2	41,7/99,3	35,1/99,6	15,1/99,3	11,5/99,5
New and newly assumed loans (CZK billion)	2,3	10,3	13,6	18,2	34,7	67,0	107,5	139,2	154,5	170,4	120,3	98,6
of which: classified (CZK billion / %)				13,6/ 74,7	14,6/ 42,1	35,5/53,0	72,2/67,2	74,3/53,4	89,9/58,9	133,2/78,2	102,7/85,4	86,0/87,2
loss making (CZK billion / %)				4,3/ 23,6	9,3/ 26,8	14,3/21,3	52,7/49,0	56,0/40,2	73,3/47,4	118,0/69,2	77,9/64,8	71,2/72,2
<b>Total loaned (CZK billion)</b>	<b>76,9</b>	<b>78,2</b>	<b>77,4</b>	<b>79,0</b>	<b>94,1</b>	<b>125,0</b>	<b>160,8</b>	<b>187,7</b>	<b>196,5</b>	<b>205,6</b>	<b>135,5</b>	<b>110,2</b>
of which: classified (CZK billion / %)		46,2/ 59,1	48,3/ 62,4	64,4/ 81,5	69,2/ 73,5	90,2/72,2	125,5/78,0	122,8/65,4	131,8/67,1	168,4/81,9	117,8/86,9	97,6/88,6
loss making (CZK billion / %)		39,5 / 50,5	41,3/ 53,4	44,0/ 55,7	54,2/ 57,6	66,1/52,9	105,1/65,4	104,1/55,5	115,0/58,6	153,1/74,5	93,0/68,6	82,7/75,0

Bankruptcy												
Volume of receivables in bankruptcy (nom. value) CZK million	-	2 138,0	5 305,7	10 437,1	16 951,1	28 385,0	53 362,1	65 098,9	89 234,4	123 385,7	67 777,7	67 959,0
Number of clients in bankruptcy	-	59	108	193	319	511	720	1 019	2 277	2 638	1 102	1 413

Receivables written-off												
Expenses for receivables written off for clients CZK million	-	0,1	21,2	206,2	827,6	74,3	1 663,1	1 290,5	* 1 217,3	4 047,9	2 845,5	4 693,1
of which: CKA									** 253,4	x	x	x

\* KOB + ČKA 1. 1. 2001 - 31. 12. 2001

\*\* ČKA 1. 9. 2001 - 31. 12. 2001

## BODIES OF THE CORPORATION

The basic management and statutory body of ČKA consists of the five-member Board of Directors, headed by the Chairman of the Board, who is also the General Director of the Agency. The Supervisory Board of ČKA, appointed by the Chamber of Deputies, primarily has supervisory powers. It controls the concrete orientation of ČKA's activities, exerts ČKA's ownership rights in subsidiaries, and sees that ČKA performs in accordance with generally accepted rules and the decisions of ČKA's governing body. It also approves the draft of the Articles of Association and the financial statements, financial operations with assets exceeding CZK 500 million, the establishment of business companies, decision of ČKA's activities which exceed the yearly financial plan and budget of ČKA, the personal representation of ČKA in Statutory and Supervisory bodies of legal entities after agreeing with the Ministry of Finance, etc. It proposes personnel, organizational or other measures to the Ministry of Finance or to the Board of Directors.

### Supervisory Board of Česká konsolidační agentura

Ing. Vlastimil Tlustý, CSc., Chairman  
Ing. Josef Hojdar, Vice - Chairman  
Michal Doktor, Member  
Ing. Vladimír Doležal, Member  
Ing. Miloslav Kala, Member (since: 25 February 2004)  
Ing. Alfréd Michalík, Member  
Ing. Pavel Pešek, Member  
Mgr. Ing. Pavel Tollner, Member  
Ing. Miloslav Vlček, Member

### Board of Directors of Česká konsolidační agentura

Zdeněk Čáp, Ph.D., Chairman (since 1 April 2004)  
Ing. Petr Goldmann, Member (since 15 March 2004)  
Ing. Mojmír Hampl, MSc., Ph.D., Member (since 1 April 2004)  
Ing. Jiří Jurán, MBA, Member  
Ing. Radka Kafková, Member  
Ing. Pavel Řežábek, Chairman (until 31 March 2004)  
Ing. Zlata Gröningerová, Member (until 14 March 2004)  
Ing. Libor Svoboda, Member (until 10 March 2004)



## Supervisory Board

**Ing. Vlastimil Tlustý, CSc.,**

Chairman of the Supervisory Board

Date of birth: 19 September 1955

He graduated from the Agricultural University of Prague in 1979. From 1980 to 1990 he was a research fellow and research worker at the Research Institute of Agricultural Machinery. After one year at the Agricultural University (VŠZ) (1990-1991), he became the first Deputy Minister of Agriculture. He held this post until 1992. He was elected to the Chamber of Deputies for the Civic Democratic Party (ODS) in 1992. Until 1996, he was a member of the Agricultural Committee, from 1996 he was the Deputy Chairman of the Budget Committee and from 1998 he was its Chairman. Since 2002, has again served as the Deputy Chairman of the Budget Committee. He also holds the post of Chairman of the Club of Deputies of the Civic Democratic Party (ODS).

*Membership of other corporate bodies: None*

**Ing. Josef Hojdar,**

Vice-Chairman of the Supervisory Board

Date of birth: 16 October 1946

He was employed until 1991 by Severočeské hnědouhelné doly, during which time he also graduated from the Mining Institute in Ostrava (1980). In addition to running his own business, he served as the first Deputy Mayor of the town of Most from 1994 to 1996. He has been a deputy of the Chamber of Deputies for the Czech Social Democratic Party (ČSSD) since 1996. Between 1996 and 1998 he was a member of the Budget Committee, since 1998 a member of the Economic Committee of the Chamber of Deputies and since April 2000 he has been the Chairman of the Economic Committee.

*Membership of other corporate bodies: None*

**Michal Doktor,**

Member of the Supervisory Board

Date of birth: 2 October 1967

After leaving college in 1985, he worked for a state farm in Třeboň and then held various economic posts in PZO Pragoinvest Prague, Jipro výrobní družstvo Lomnice nad Lužnicí and BST České Budějovice. He has been a deputy of the Chamber of Deputies since 1998. Until 2002 he was a member of the Foreign Committee and a member of the Permanent Committee of the Chamber of Deputies for Banking. He is currently a member of the Budget Committee.

*Membership of other corporate bodies:* None

**Ing. Vladimír Doležal,**

Member of the Supervisory Board

Date of birth: 30 April 1965

After graduating from Prague Technical University in 1988, he worked as a designer in the PRAHA, a.s. Lokomotivka plant. Since 1993, he has been a business manager for the company ATTL, spol.s r.o. and the Deputy Mayor of Dolní Měcholupy (on an external basis). Since 1997, he has been a secretary of the Municipal Authority in Prague 15. He was elected to the Chamber of Deputies of the Czech Parliament for the Civic Democratic Party (ODS) in 1998. From 1998 to 2002 was a member of the Permanent Committee of the Chamber of Deputies for Banking. Currently he is member of Budget Committee.

*Membership of other corporate bodies:* He is member of the Supervisory Board of Autoklub Bohemia Assistance, a.s. and member of Supervisory Board of Global Investment, a.s.

**Ing. Miloslav Kala,**

Member of the Supervisory Board (since 25 February 2004)

Date of birth: 3 August 1963

In 1988, he graduated from the Technological University, Mechanical Engineering Faculty in Brno. From 1988-1996, he worked with Adamovské strojírny, a.s. From 1996-2000, he worked in the finance and organisation advisory field. From 2000-2002, he was the Mayor of the town of Blansko. Since 2002, he has been a Member of the Blansko Municipal Council, a deputy of the Chamber of Deputies for the Czech Social Democratic Party, a Member of the Economic Committee, Vice-Chairman of the Mandate and Immunity Committee, Chairman of the Industry and Construction Subcommittee and Member of the Constitutional and Legal Committee.

*Membership of other company bodies:* Board Member of SŽDC, a state enterprise (2003-2004). He resigned on 26 February 2004 due to his appointment to the ČKA Supervisory Board.

**Ing. Alfréd Michalík,**

Member of the Supervisory Board

Date of birth: 25 August 1944

He graduated from the Mining Institute, Faculty of Metallurgy, Department of Economics and Management of Metallurgy in Ostrava in 1967. During the years 1991-1992, he completed a management course organized by the company STELCO in Hamilton, Canada. He worked until 1990 at Železářny a drátovny Bohumín in various economic posts. During the years 1990-1992 he was the Deputy Economic Director and from 1993-1994 he was the adviser to the Director of Železářny a drátovny Bohumín. From 1994 to 1997, he was the Economic Director at KOVONA KARVINÁ, a.s. In 1996, he was elected to the Senate and, after his senator's term of office expired in 2002, he was elected to the Chamber of Deputies of the Czech Parliament. In the Senate, he held the post of the Vice-Chairman of the Committee for Economy, Agriculture and Transport. In the Chamber of Deputies he is a member of the Committee for Social Policy and Health. Between 2000 and 2002, he was an adviser to the National Property Fund.

*Membership of other corporate bodies:* Chairman of the Supervisory Board of the company Bohumínský městský servis, a.s. of which the only shareholder is the town Bohumín and deputy chairman of Board of Directors of Bohumínská městská nemocnice, a.s. He is a member of the Supervisory Board of VIPAP VIDEM Krško, d.d. and deputy chairman of the Supervisory Board of Válcovny plechu Frýdek-Místek, a.s.

**Ing. Pavel Pešek,**

Member of the Supervisory Board

Date of birth: 31 March 1964

He graduated from the Agricultural University in 1989 and was employed as an agronomist by a farmer's co-operative in Brloh from 1989 to 1992. In 1992 he was elected deputy of the Czech National Council. From 1993 to 2002 he was a deputy of the Chamber of Deputies of the Czech Parliament. He was a member of the Agricultural Committee and, from 3 July 1996 to 19 June 1998, its Vice-Chairman.

*Membership of other corporate bodies:* Since 2 April 1997, he has been a member of the Supervisory Board, since 7 May 2002 he has been the Vice-Chairman of the Supervisory Board of the Land Fund of the Czech Republic. Since September 2003 he has been a member of the Supervisory Board of IMOB a.s. and a member of the Supervisory Board of BH CAPITAL, a.s., Konpo, s.r.o. and Českomoravská nemovitostní, a.s.

**Mgr. Ing. Pavel Tollner,**  
Member of the Supervisory Board

Date of birth: 10 March 1949

Mr. Tollner graduated from the Technical University, the Faculty of Civil Engineering in Brno. Until 1974, he worked as a designer for DRUEXPO, a production co-operative in Brno. From 1974-1977 he worked as a designer in Investprojekt Brno, from 1978-1980 as a designer in Brnoprojekt Brno and from 1980-1982 as an investment officer in Podnik výpočetní techniky. During the years 1982-1990 he was a production planner, site manager for a foreign construction project and the head officer of the foreign trade department of Průmyslové stavby Brno. From June 1990 to October 2001 he was a deputy of the Czech National Council and afterwards, a deputy of the Chamber of Deputies of the Czech Parliament. He graduated from theological faculty of Charles University in Prague. Since 31 October 2001, he has been a member of the Supervisory Board of Česká konsolidační agentura.

*Membership of other corporate bodies:* Member of the Supervisory Board of ČKA's subsidiaries: Česká finanční, s.r.o. and Konpo, s.r.o.

**Ing. Miloslav Vlček,**  
Member of the Supervisory Board

Date of birth: 1 February 1961

He graduated from the Agricultural University in Brno in 1989. He worked in various economic posts for a farmer's co-operative in Ludmírov until 1991. Since 1991 he has been a tax inspector at the Tax Office in Konice. He was elected deputy for the Czech Social Democratic Party (ČSSD) in 1996. Initially, he was a member of the Committee for the Public Administration and the Environment, and since 1998 he has been a member of the Budget Committee.

*Membership of other corporate bodies:* The Chairman of the Board of Directors Autoklub Bohemia Assistance, a.s., Member of the Supervisory Board of TCHECOMALT GROUP, a.s. (under bankruptcy).

## Board of Directors



Photo below from the left: Radka Kafková, Zdeněk Čáp

Photo above from the left: Jiří Jurán, Mojmír Hampl, Petr Goldmann

### **Zdeněk Čáp, Ph.D.**

Chairman of the Board of Directors and General Manager

Date of birth: 31 August 1968

In 1999, he completed a PhD at the University of Economics, Corporate Undertaking Faculty in Prague. In 1992-1999, he worked with KB, a.s., Ústí nad Labem Branch in the marketing section, was a member of the Corporate Banking implementing team of the KB, a.s. transformation project, the Deputy Manager of the KB, a.s. Teplice Business Centre, Deputy Manager of a regional branch of KB, a.s. and Branch Manager of KB, a.s., Ústí nad Labem Branch. During 2000-2004, he worked as a Statutory Representative and Deputy Manager General of Konpo, s.r.o. Since 11 March 2004 he was elected a member of Board of Directors of ČKA and since 1 April 2004 he was appointed as the chairman of the Board of Directors and chief executive of ČKA. In 1996-1999, he worked as an External Assistant for the Corporate Finance Department of the Social Affairs and Economics Faculty of Jan Evangelista Purkyně University (FSE UJEP) and as a Fellow of the Learned Council of FSE UJEP. Since 2004, he has been a Member of the MBA Degree Examination Board and a Member of the Doctoral Thesis Viva Voce Examining Board at the University of Economics, Corporate Undertaking Faculty in Prague. Since 2004 he has been studying in an MBA program at Sheffield Hallam University in cooperation with ČVUT.

*Membership of other company bodies:* Supervisory Board Member of KOVOŠROT PRAHA, a.s., Supervisory Board member of Konpo, s.r.o., Supervisory Board member of ČSA. Member of the Economical Council of Czech Republic.

**Ing. Petr Goldmann**

Member of Board of Directors and Senior Manager of the Block Solutions Department

Date of birth: 3 June 1961

In 1983, he graduated from the Mining Institute in the Economics and Management. In 1984-1991, he was a financial specialist and, as of 1989, the Head Financial Specialist of Královské železářny, a.s. In 1991, he joined KB, a.s., and worked in the following positions: Commercial Specialist (1991-1992), Head of Department (1992-1997) and Business Risk Specialist (1997-2000). In 2000, he joined KOB Praha, s.p.ú. as the Risk Management Department Manager. In 2002, he was appointed the Restructuring Department Manager. In 2003, he became the Block Transaction and Restructuring Department Manager. He was appointed as the member of the Board of Directors on 15 March 2004, on 16 March 2004 as Senior manager of the trade specialist's department and after ČKA organisational structure change he became Senior manager of Block Solutions Department on 1 September 2004.

*Membership of other company bodies:* Since 30 June 2004, he has been the Supervisory Board Deputy Chairman of Konpo, s.r.o.

**Ing. Mojmír Hampl, MSc., Ph.D.**

Member of Board of Directors and Senior Manager of the Business and administrative support

Date of birth: 13 March 1975

In 1998, he graduated from the University of Economics in Prague - Major: Economical policy. In 2000-2001, he completed a post-graduate course in economics and financial markets at the University of Surrey, the United Kingdom. In 2004 received Ph.D degree from University of Economics in Prague. In 1998-2002, he worked as an analyst and senior analyst with ČNB. Also in 1998, he was a Special Advisor to the Minister without Portfolio. In 2002-2004, he worked with ČS, a.s. as a Senior Analyst and the Financial Analysis Coordinator of the ERSTE financial group. On 1 April 2004 he was named on the position of board member and supervisor of methodic and financial department, after organisation structure change of ČKA on 1 September 2004 he became senior manager of business and administrative support department. In 2002-2003, he was a member of the external advisory team of the Ministry of Finance for public budget reform. In 1999, he was awarded the title of Young Economist of the Year by the Czech Society for Economics and holds numerous other academic awards.

*Membership of other company bodies:* Member of Board of Directors of the Czech Society for Economics, Deputy Chairman of Supervisory Board of INTEGRA, a.s., Honorary Member of the PPP Association.

**Ing. Jiří Jurán, MBA**

Member of Board of Directors and Senior Manager of Individual solutions department

Date of birth: 7 February 1966

In 1988 he graduated from the Mining Institute in Ostrava, Economics Faculty, and in 2003 from the School of Business and Finance at Hallam Sheffield University. As of 1988, he worked as a reviewer and inspector with the State Czechoslovak Bank. In 1990, he worked with the Czech Police as an investigator in the District Investigating Bureau of Bruntál (economic crime), and then as the Finance Deputy General Manager of Kovohutě Břidličná, state company, where he became the Financial Manager of the company after its transformation into a joint-stock company. As of February 1994, he joined KB, a. s., Bruntál Branch, as the Sales Department Manager. In 1996-1997, he was the Deputy Manager of the KB, a. s. Business Centre in Olomouc and then was the Risk Receivable Department Manager of the KB, a. s., Detached Office in Opava. In 2000, he was appointed Executive Manager of the KB, a. s., Risk Receivable Department, was involved in the formation of Konpo, s.r.o. and, relating to that assignment, he carried out a transfer of risk receivables worth approx. CZK 60 billion from KB, a. s. to KOB Praha, s. p. ú. As of June 2000, he was the Risk Receivable Department Manager of the KB, a. s. Head Office, Opava office. While in KB, a.s., he completed the Comprehensive Training Program for Young Managers. Since 2000 he studied MBA on Sheffield Hallam University. He was involved in the implementation of several projects in KB in cooperation with McKinsey, a consultancy firm, including the "Workout" Project. Since 5 September 2001, he has been member of Board of Directors of ČKA and, the Senior Manager of the Receivable and Asset Management Function. After organisation structure change on 1 September 2004 he became Senior Manager of Individual solutions department.

*Membership of other company bodies:* Supervisory Board Chairman of PRISKO, a.s., (appointed by the general meeting on 2 September 2003), Supervisory Board Member of IMOB, a.s. since 2 October 2003, and Supervisory Board Member of Česká finanční, s.r.o since 17 June 2004.

**Ing. Radka Kafková**

Member of Board of Directors and Senior Manager of Complex solutions department.

Date of birth: 21 February 1967

In 1989, she graduated from the Mining Institute, Mechanical and Electrical Engineering Faculty. In 1993, she worked as an account manager (loan provision and loan deal management, specifically loans with high risk) with ČS, a.s. and then, during 1993-1994, as an account manager (risk management) with Česká banka, a.s. During 1994-1997, she was the Financial Restructuring Department Manager of Union banka, a.s. Concurrently, during 1995-1997, she was also a lecturer at the Mining Institute, Faculty of Economics. During 1997-1999, she was the Loans Receivable Department Manager of ČNB. From 1999 to 2001, she was a Statutory Representative and the First Deputy General Manager of Česká finanční, s.r.o. During 1998-2001,

she was the Supervisory Board Chairman of Banka Bohemia, a.s., in liquidation. After 2001, until her appointment to the Board of Directors of ČKA, she was a self-employed finance and business advisor. On 29 May 2003 she was named on position of member of the board, on 3 June 2003 she became senior manager of restructuring department and after organisational structure change on 1 September 2004 she became Senior manager of complex solutions department.

*Membership of other company bodies:* Board Member of the Society for Certification of Asset Valuers, o.p.s., Supervisory Board member of Česká finanční, s.r.o. since 17 June 2004

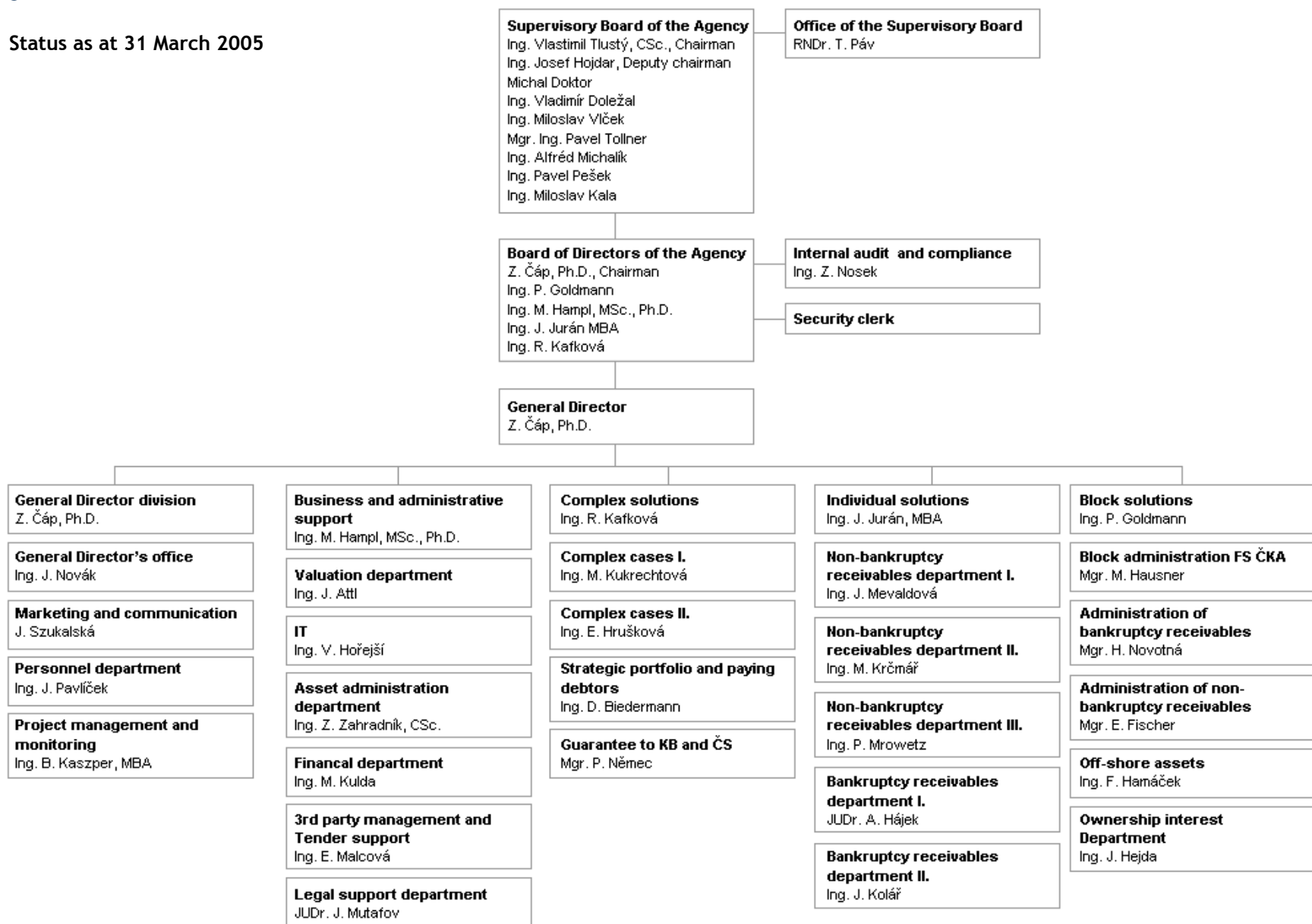


## ORGANIZATIONAL CHART

In terms of its organizational structure, ČKA is divided into five Divisions, managed by the General Director and four Managing Directors, respectively. These Managing Directors are also members of the Board of Directors. For competent decision-making on important issues which primarily relate to financial or other significant operations of ČKA, certain advisory collective bodies have been established, namely commissions and work groups that have no decision-making powers. The Divisions are further divided to Departments.

Organisational chart of ČKA as at 31 March 2005

Status as at 31 March 2005



## GENERAL INFORMATION

<b>Firm:</b>	Česká konsolidační agentura
<b>Registered office:</b>	Praha 7, Janovského 438/2, PSČ 170 06
<b>Identification number:</b>	70109966
<b>Legal form:</b>	Corporate body regulated by particular Act
<b>Formation date and relevant legislation:</b>	<p>ČKA was set up by the Act No. 239/2001 Coll., On ČKA and amending certain other acts (“the ČKA Act”) as of 1 September 2001, i.e. as of the effective date of the ČKA Act.</p> <p>ČKA is a legal successor to Konsolidační banka, s.p.ú., in liquidation, the latter having been dissolved in accordance with Section 19, Act No. 239/2001 Coll., on ČKA as of the Act’s effective date. Konsolidační banka, s.p.ú., in liquidation, was expunged from the Commercial Register as at 1 September 2001.</p> <p>ČKA is the legal entity with registered office in Prague authorised to dispose of the state’s assets as entrusted to it by the ČKA Act, as well as the state’s assets it becomes authorised to dispose of in carrying out its defined activities or relating to their performance.</p>
<b>Date of termination:</b>	<p>According to the ČKA Act, ČKA shall terminate without liquidation on 31 December 2007 and the state shall be its legal successor, as represented by the Ministry of Finance. Titles and liabilities of ČKA existent at the date of the winding up of ČKA shall devolve to the Ministry of Finance.</p>
<b>Registration court:</b>	<p>Česká konsolidační agentura is recorded in the Commercial register at Municipal court in Prague in Section A, Reg. number: 45993</p>
<b>Government guarantee:</b>	<p>Payables of Česká konsolidační agentura are guaranteed by the government based on Section 1 Article 3) of Act on ČKA, Czech Republic.</p>

## ČKA’s business activities

Business activities are specified in Section. 3, Article 1, Act on ČKA and in No. 3 of Internal Statute, based on which ČKA’s activities are the:

- a) purchase, sale and administration of receivables and other selected assets;
- b) restructuring of business companies and other legal entities, which are determined by the decision of the Government;
- c) purchase, sale and custody of securities;
- d) custody of pledges over movable assets;
- e) administration of accounts for legal entities and private individuals who owe liabilities to Česká konsolidační agentura, up to the aggregate amount of their liabilities;

- f) financial and business advisory services;
- g) fundraising on the financial market and other activities as required by the Ministry of Finance in relation to the performance of the activities listed above;
- h) transferring of payments, clearing and activities which relate to foreign exchange transactions;
- i) asset valuation;
- j) organization of educational and training events;
- k) lease of real property and non-residential premises, including the provision of basic services relating to such activities;
- l) operation of training facilities, concurrent with the following activities:
  - the purchase of goods for resale and sale (except for the goods as per the Appendix of Act No. 455/1991 Coll., as amended, and goods excluded by the same Act),
  - hospitality services,
  - accommodation services;
- m) trading in derivatives;
- n) automatic data processing;
- o) software providing;
- p) designing, creating and operating information systems;
- q) consulting and advisory services in an IT environment;
- r) depositing financial assets on the financial market using reverse REPO operations;
- s) underwriting or placing issues (in order to ensure the realization of government resolution number 908, dated 10 September 2003, regarding payables and receivables of the former České Dráhy state enterprise, at 31 December 2002 and strategies of their solution).

Activities set out under points h) through l) have been performed by ČKA, effective from 1 September 2001, based on a decision of the Ministry of Finance concerning other activities of ČKA, Ref. No.: 06/69 738/2001 of 31 August 2001, activities set out under point m) based on a decision of the Ministry of Finance on supplementing the subject of ČKA's activities, Ref. No.: 06/142 791/2002 of 14 January 2003, effective from this date and activities set out under points n) through q) based on a decision of the Ministry of Finance on supplementing the subject of ČKA's activities, Ref. No.: 06/63 784/2003 of 1 August 2003, effective from this date. The activity set out under point r) is performed by ČKA based on a decision of the Ministry of Finance on other activities of ČKA, Ref. No.: 06/96 320/2001 of 20 June 2002, effective from this date.

The activity set out under point s) is performed by ČKA based on a decision of the Ministry of Finance on the extension of the subject of activities of Česká konsolidační agentura, Ref. No.: 06/101 230/2003 of 4 December 2003, effective from this date.

ČKA may acquire new assets for consideration till 31 December 2005. With the exception of the acquisition of assets for consideration which ensue from the already-performed legal acts before the Act No. 482/2004 Coll. became effective, and with the exception of the acquisition of assets in conjunction with the risk and liquidity management, and with the acquisition of resources in the financial market, ČKA may do so solely on the basis of a government decision or on the basis of an approval granted by the Chamber of Deputies of the Parliament as per Section 3 Article 5 of Act No. 239/2001 Coll. In the case that the consideration for the acquisition of assets by ČKA, in aggregate with the previous considerations made as per a government decision in compliance with, Section 3 Article 4 of Act No. 239/2001 Coll., exceed, within one calendar year, CZK 1 billion, the execution of such a transaction requires that prior approval be granted by the Chamber of Deputies of Parliament (see amendment of Act No. 239/2001 Coll., by Act No. 482/2004 Coll., which became effective as at 7 September 2004).

### **Development and legal status of the Agency**

The Act No. 239/2001 Coll. on ČKA, was enacted; it secures the legal continuity of the state-owned financial institutions KOB and ČKA, including the legal and procedural succession and the devolution of all rights and liabilities. Under the new Act, ČKA is a legal entity that is entitled to manage the assets of the state as well as certain assets when securing a stipulated activity, or in relation to such an activity. ČKA will be entered in the Commercial Register, and this entry will have a declaratory nature. After the amendment of Act No. 239/2001 Coll., by Act No. 482/2004 Coll., which became effective as at 7 September 2004, the Agency shall be terminated without liquidation, as at 31 December 2007. With certain exceptions, the Act on banks does not apply to the Agency. The Agency does not have a banking licence.

ČKA's position as a financial institution was declared by a measure of the ČNB, dated 21 August 2001, which at the same time assigned a zero risk weight to ČKA (under the law, ČKA's liabilities are guaranteed by the state). After its establishment, the Agency and ČNB entered into an agreement which governed the access of the Agency to the clearinghouse.

As part of the changes stipulated by the Act on ČKA, some banking activities that are no longer performed by ČKA were suspended by KOB and subsequently, by ČKA as well. Above all, the credit activities were terminated, as ČKA is not a bank under Act No. 239/2001 Coll. and it is not authorized to provide new loans or receive deposits from clients. KOB cancelled all employees' accounts at the date of its activity termination. After a tender, the Agency already does not realize documentary payments. However, in compliance with a decision made by the Ministry of Finance on further activities, the Agency still may perform the full system of payment.

The Act exactly defines the Agency's activities, which include the purchase, sale and administration of receivables and selected assets; the restructuring of business companies; and the purchase, sale and custody of securities and other activities, including other activities as per a decision made by the Ministry of Finance concerning the performance of the above activities. The Agency may issue bonds. Under the conditions stipulated by Act No. 219/2000 Coll., it may acquire securities for the state. It also may, further to the Government's prior approval, acquire ownership interests in business companies or to establish them. Income and expenditure, which the Agency administers, do not form part of the Government budget.

Following approval by the Supervisory Board, the Ministry of Finance shall approve the Articles of Association and the financial statements of ČKA, assign tasks to ČKA, decide on the manner of redemption of losses, etc. If requested to do so, ČKA shall be obliged to provide information relating to the activities of ČKA to the Minister of Finance, and through him to the Government, and, possibly, to other Governmental bodies.

After the amendment of Act No. 239/2001 Coll., by Act No. 482/2004 Coll., the Minister of Finance shall present the acquisition of assets for consideration by the Agency as per Section 3 Article 4 of Act No. 239/2001 Coll to the Government for approval. The Government presents to the Chamber of deputies of the Parliament for approval the acquisition of assets for consideration as per Section 3, Article 5 of Act No. 239/2001 Coll.

## **ČKA SUBSIDIARIES**

### **Česká finanční, s.r.o.**

Registered office: V Jámě 1263/6, Praha 1, PSČ 111 21

### **Konpo, s.r.o.**

Registered office: Na Příkopě 390/3, Praha 1, PSČ 111 21

### **PRISKO a.s.**

Registered office: Janovského 438/2, Praha 7, PSČ 170 06

### **Revitalizační agentura, a.s. in liquidation**

Based upon the decision by ČKA as the sole shareholder in discharge of the powers of its General Meeting, Revitalizační agentura entered into liquidation procedures as of 1 October 2002. On 18 December 2003, upon the decision by ČKA as the sole shareholder in discharge of its General Meeting powers, the final financial statements of Revitalizační agentura, a.s. in liquidation, were approved, together with the final report on liquidation procedures and proposed appropriation of the liquidation balance. The ownership interest was written back as of the same date. The company has not yet been expunged from the Commercial Register.

*\* Please see the Consolidated Group Chapter for details of the companies.*

## STRUCTURE OF THE BUSINESS GROUPING OF ČKA

Controlling company: Česká konsolidační agentura

### Directly controlled entities:

Company name	Share capital (in ths. CZK )	Share on share capital of the company (%)
ARTA REAL, k.s.	2,900,000	100.00
CZ CREDIT REAL, k.s.	2,900,000	100.00
Explosia a.s.	1,165,000	100.00
PRISKO a.s.	794,760	100.00
Global Investment a.s.	744,000	100.00
CRF Praha a.s. in liquidation	434,378	100.00
IPB REAL INVESTMENT, a.s.	50,000	100.00
První východní a.s.	5,000	100.00
Česká finanční, s.r.o.	200	100.00
Konpo, s.r.o.	100	100.00
TCHECOMALT GROUP, a.s.	400,000	99.93
BH CAPITAL, a.s.	1,020,248	71.89
Autoklub Bohemia Assistance, a.s.	120,000	69.00

### Indirectly controlled entities:

Through Česká finanční, s.r.o.

Company name	Share capital (in ths. CZK )	Share on share capital of the company (%)
COOP BANKA, a.s. in liquidation	501,000	99.80
Spolek pro chemickou a hutní výrobu, akciová společnost	1,939,408	53.73

Přes První východní a.s. v likvidaci

Company name	Share capital (in ths. CZK )	Share on share capital of the company (%)
PRINGTON, a.s.	20,000	100.00

Přes IPB REAL INVESTMENT, a.s.

Company name	Share capital (in ths. CZK )	Share on share capital of the company (%)
Českomoravská nemovitostní, a.s.	202,000	100.00
INTEGRA, a.s.	838,992	79.59
IMOB a.s.	2,200	88.64



**Information on entities in which ČKA has a direct or indirect interest amounting to at least 10% of the consolidated equity or at least 10% of net annual profit or loss of the consolidation group.**

**PRISKO a.s.**

**Registered office:** Praha 7, Janovského 438/2, Postal Code 170 06

**Company ID:** 46355901

**Scope of business:**

PRISKO`s business activity is the management and settlement of assets and liabilities relating to privatised assets of the former state company ŠKODA Mladá Boleslav, established in relation to the 1992 privatisation. At this time it assumed certain liabilities of the original company. These liabilities included a liability for defects of products manufactured by Škoda in the past, a solution to certain receivable relationships and asset-connected relationships (mostly real property) that the Czech party contributed to the newly-privatised company - the current ŠKODA AUTO a.s.

Subscribed share capital: CZK 794,760 ths.

Share of issuer on share capital: 100.00%

**Explosia a.s.**

**Registered office:** 532 17 Pardubice-Semtín

**Company ID:** 25291581

**Scope of business:**

The main subjects of business are as follows:

- production of industrial and military explosives
- production of propellants and final development of ammunition
- research and development ensuring a long-term development of main production areas
- technical service necessary for the customers, production and trading

Subscribed share capital: CZK 1,165,000 ths.

Share of issuer on share capital: 100.00%

**Spolek pro chemickou a hutní výrobu a.s.**

**Registered office:** Ústí nad Labem, Revoluční 1930/86, Postal Code 400 32

**Company ID:** 00011789

**Scope of business:**

The key business includes the research, development, production and processing of chemical and biochemical products. (production of inorganic chemicals, synthetic resin and organic paints).

Subscribed share capital: CZK 1,939,408 ths.

Share of issuer on share capital: 53.73% (indirect control)

**AERO Vodochody a.s.**

**Registered office:** Odolena Voda, Dolínek, ul. U Letiště 374, Postal Code: 25070

**Company ID:** 00010545

**Scope of business:**

The key business includes:

- the development, production, testing, repair, maintenance and modernisation of trainer and fighter military aircrafts, aircraft parts and jigs
- the development, design, testing and construction modifications of aircrafts, products and parts of aircraft technique
- the operating of a non-public international airport

Subscribed share capital: CZK 2,691,926 ths.

Share of issuer on share capital: 46.65%

**České aerolinie a.s.**

**Registered office:** Praha 6, Ruzyně Airport, Postal Code: 160 08

**Company ID:** 45795908

**Scope of business:**

The scope of business includes the following key areas

- commercial air service operation
- the provision of services at the check-in in the Praha-Ruzyně Airport, clearance of aircrafts on the operating area, clearance of passengers, cargo and mail
- the provision of catering services for aircrafts (supplies of food and beverage)
- the procurement of services in air transport

Subscribed share capital: CZK 2,735,510 ths.

Share of issuer on share capital: 34.59%

**První česko-ruská banka, s.r.o.**

**Registered office:** Luchnikov per. d. 7/4, Moscow, Russian Federation

**Company ID:** 044525300

**Scope of business:**

The scope of business includes the performance of activities as stipulated by the Russian Federation Act on Banks and Banking No. 395-1, as amended. The bank has been issued a licence which authorises it to perform all banking transactions carried out both with legal entities and individuals.

Subscribed share capital: RUB 3,510,152 ths., i.e. CZK 2,829,127 ths. (exchange rate as at 31.12.2004)

Share of issuer on share capital: 13.87%

**ARTA REAL, k.s.**

**Registered office:** Praha 1, Rybná 14/682

**Company ID:** 26174545

**Scope of business:**

The key business includes

- purchase of goods for resale, and sale
- the procurement of business services as non-regulated trade
- providing of factoring and forfaiting services

Subscribed share capital: CZK 2,900,000 ths.

Share of issuer on share capital: 100.00%

**CZ CREDIT REAL, k.s.**

**Registered office:** Praha 1, Rybná 14/682

**Company ID:** 26174553

**Scope of business:**

The key business includes

- purchase of goods for resale, and sale
- the procurement of business services as non-regulated trade
- providing of factoring and forfaiting services

Subscribed share capital: CZK 2,900,000 ths.

Share of issuer on share capital: 100.00%

Global Investment a.s.

**Registered office:** Praha 1, Těšnov 1

**Company ID:** 25071858

**Scope of business:**

The key business includes finance and business advisory services.

Subscribed share capital: CZK 744,000 ths.

Share of issuer on share capital: 100.00%

**BH CAPITAL, a.s.**

**Registered office:** Brno, Příkop 834, Postal Code: 602 00

**Company ID:** 00546682

**Scope of business:**

The key business includes

- purchase of goods for resale, and sale
- finance and business advisory
- lease of buildings and provision of related services

Subscribed share capital: CZK 1,020,248 ths.

Share of issuer on share capital: 71.89%

## EVENTS OF 2004

### January

ČKA received the final instalment from HTC Holding, a.s. as a consideration for the sale of losses and irrecoverable receivables from the company Zetor, a.s.

Based on Czech Government Resolution No. 1152/2003, a Contract on compensation for potential losses and additional external costs of ČKA was concluded between ČKA and the National Property Fund of the Czech Republic, in connection with the inclusion of ČKA's assets in the company UNIPETROL, a.s., into the process of its privatisation.

In compliance with Czech Government Resolution No. 52/2004, ČKA acquired 38.5% of the shares in the company Explosia a.s.

### February

Under the Redemption contract, ČKA assumed a significant portion of underlying assets of the former IPB's offshore structures.

In accordance with Czech Government Resolution No. 967/2003, ČKA sold 3.62% of the shares in the company Český Mobil, a.s. (currently Oskar Mobil, a.s.) based on a put option in respect of the company TIW Corporation N.V. The final sale price amounted to almost CZK 614 million.

In accordance with Czech Government Resolution No. 1184+ P/2003, ČKA assumed a tranche of receivables, significant in terms of volume, from debtors of health insurance companies. An advance was credited to the accounts of health insurance companies in the amount of 70% of the sum set out in the Government Resolution, i.e. CZK 2.062 billion.

On 16 February 2004, the Chairman of the Board of Directors and General Manager of ČKA, Ing. Pavel Řežábek, sent a letter of resignation to the Prime Minister, Vladimír Špidla, whereby he resigned his posts with effect from 31 March 2004.

ČKA successfully arranged the issue of bonds of the national organisation Správa Železniční Dopravní Cesty (Railway Traffic Route Administration, SŽDC) with a total value of CZK 7 billion. ČKA was authorised to arrange the issue in accordance with the Czech Government's Resolution of 10 September 2003. The issue will be repaid on 3 March 2011.

## March

On 22 March 2004, ČKA undertook a so-called technical issue of short-term bonds valued at CZK 5 billion through the Short-term bond system, with a maturity of 52 weeks from the date of issue.

Using the receivable from the Ministry of Finance for the redemption of losses in prior accounting periods, ČKA repaid a significant volume of loans received from HVB Bank Czech Republic a.s. and Komerční banka, a.s.

Based on Czech Government Resolution No. 193/2004, ČKA acquired shares representing the remaining 61.5% interest in the company Explosia a.s.

ČKA arranged the issue of SŽDC bonds valued at CZK 7 billion and their placement on the financial market. The Czech Securities Commission approved the issue conditions by its decision of 23 January 2004. The final repayment date was fixed for 3 March 2011.

## April

The Board of Directors of ČKA began operating with new members: Zdeněk Čáp, Ph.D. (the Chairman of the Board of Directors and the General Manager), Ing. Jiří Jurán, MBA, Ing. Mojmír Hampl, MSc., Ph.D., Ing. Petr Goldmann, Ing. Radka Kafková.

ČKA launched new issue of short-term bonds valued at CZK 5 billion, with a maturity of 13 weeks. The issue was repaid on 21 July 2004.

ČKA ceded, to a new assignee, receivables from the company CETOS, a.s. that was placed into the programme EXIT2 based on Czech Government Resolution No. 578/2002.

On 23 April 2004, a contract was concluded between ČKA and the company FITE-DV Koncern, a.s. under which ČKA's receivable from the company ČKD VAGONKA, a.s. with a total value of some CZK 50.5 million, was ceded for a consideration of CZK 49.8 million. The contract came into effect on 7 June 2004.

## May

ČKA launched "Project 2007" which introduced radical changes in the organisation, its business procedures and employment. The aim of Project 2007 was to take specific measures that would result in the winding up of ČKA's activities in 2007, in accordance with the Government Resolution.

Based on Czech Government Resolution No. 1126/2003, ČKA acquired an ownership interest in the company ISPAT NOVÁ HUŤ, a.s. representing 10.55% of the share capital.

In accordance with Czech Government Resolution No. 1125/2003, ČKA sold the bill of exchange of PČRB, s.r.o.

Based on Czech Government Resolution No. 403/2004, ČKA sold its shares in the company MUZO, a.s. For the sale of its 20.86% ownership interest in MUZO, a.s. to the company PGT Capital, s.r.o. the Agency obtained over CZK 351 million.

On 19 May 2004, Komerční Banka, a.s. delivered a call for final settlement to ČKA, based on which the general settlement of the provided state guarantee was performed by Komerční banka, a.s. The calculated final loss as at 31 December 2003 was CZK 5,314.3 million. With regard to the 5% share of Komerční banka, a.s., in its redemption the performance of ČKA amounted to CZK 5,048.6 million. A difference amounting to CZK 813.2 million between the advance provided and the redeemed final loss, was returned by Komerční banka, a.s. to ČKA as at 17 June 2004, whereupon ČKA transferred it to the National Property Fund of the Czech Republic.

The court dismissed in full the action filed by Česká spořitelna (the Czech Savings Bank) with respect to the payment of controversial, so-called Incentive fees. In connection with this, ČKA managed to reduce the proceeds from the provided guarantee by almost CZK 242 million. The arbitration award was final and conclusive and became enforceable.

## June

On 3 June 2004, ČKA issued additional short-term bonds valued at CZK 4.907 billion with a maturity of 13 weeks. The issue was repaid on 2 September 2004.

In connection with the successful settlement of some balance sheet assets, ČKA repaid a significant portion of the loan received from Komerční banka, a.s.

According to Czech Government Resolution No. 319+ P/2004, ČKA sold its ownership interest in the company ČKD Praha Holding, a.s. and according to Czech Government Resolution No. 583/2004, an ownership interest in the company Královopolská, a.s.

According to Czech Government Resolution No. 274/2004, the sale began of mutual fund certificates of open-ended mutual funds held by ČKA.

ČKA realised the lien in respect of Burzovní palác (the Stock Exchange Palace). Consequently, ČKA's receivable from the company Českomoravská nemovitostní, a.s. valued at some CZK 363 million, was fully repaid.

On 30 June 2004, the full amount of the purchase price (CZK 712 million) for the sale of real estate property of the company INTEGRA, a.s. was transferred to the escrow account with HVB Bank Czech Republic. After their release ČKA's receivable from this company, amounting to CZK 279 million, was repaid in full.

## July

Under the Redemption contract entered into in 2003 between the Czech Republic, represented by the Ministry of Finance of the Czech Republic, ČKA, Československá obchodní banka, a.s. and selected offshore structure funds, ČKA acquired the shares of the company Global Investment, a.s.

ČKA was placed first in the prestigious competition 'Microsoft Industry Awards for the year 2004', in the category 'Best solution for banking, insurance and financial management'. ČKA has succeeded in the competition of renowned software companies with its application CDT, which is a system primarily designed for the management of receivables.

On 21 July 2004, ČKA issued short-term bonds valued at CZK 5 billion with a maturity of 13 weeks. The issue was repaid on 20 October 2004.

Through the repayment and sale of receivables from the company KORADO, a.s. ČKA terminated its risk exposure with respect to the above company. ČKA received CZK 1.6 billion from the transaction whereby receivables were partly refinanced and the remaining portion of ČKA's receivables from KORADO, a.s was ceded to HVB Bank Czech Republic, a.s.

## August

On 24 August 2004, ČKA completed the joint sale of receivables and an ownership interest in the company TRUSTFIN, a.s. The purchaser was the company Monarch Machinery LLC. The subject of the sale were 6 receivables in total, 100% of the shares in the company TRUSTFIN, a.s. and a 0.06% share in the company UNIPLET Třebíč, a.s. The sale was carried out in accordance with Czech Government Resolution No. 399/2004.

## September

ČKA started to apply the guidelines of Project 2007. Key aspects of the new arrangement of ČKA were changes in the portfolio segmentation. The Organisational structure was also modified according to the new division. Its pillars are three business sections that correspond to the managed assets - complex, individual and collective solutions.

On 2 September 2004, ČKA issued short-term bonds valued at CZK 5 billion with a maturity of 13 weeks. The issue was repaid on 2 December 2004

On 15 September 2004, ČKA issued bonds valued at CZK 5 billion. The coupon bears a fixed rate of 4.00% p.a. and its due date is 17 September 2007

## October

According to Czech Government Resolution No. 973/2004, the Boeing Company terminated its capital interest and strategic partnership in the company Aero Vodochody a.s. ČKA simultaneously acquired the shares issued by Aero Vodochody a.s from Boeing Česká, s.r.o.

In connection with Czech Government Resolution No. 1184+5/2003, ČKA terminated the assumption of receivables from clients of health insurance companies.

On 13 October 2004, ČKA received payment for the receivable ceded to it from ČSOB in the total amount of CZK 1.6 billion, from the company Oskar Mobil, a.s. The original creditor was the bankrupt IPB.

ČKA resumed its large block sales and announced a public tender for the cession of blocks of receivables from the portfolio of its subsidiary Konpo, s.r.o. The bankruptcy block included 1,282 receivables from 421 debtors, the aggregate value of which was CZK 17.8 billion. The non-bankruptcy block included 458 receivables from 246 debtors, with a value of CZK 6.3 billion.

By the procedure set out in in Czech Government Resolution No. 939/2004, ČKA successfully resolved the issue of indebtedness of the City of Uničov.

As at 31 September 2004, Správa Železniční Dopravní Cesty, (a national organisation), repaid the whole amount of the loan of CZK 995.6 million assigned to ČKA from Česká spořitelna a.s.

## November

ČKA returned an amount of CZK 64.2 million to the National Property Fund of the Czech Republic as an overpayment from the proceeds under state guarantee for the period from 1 January 2004 to 17 June 2004 (i.e. until the assumption of receivables by ČKA), which had been returned to them by Komerční banka, a.s.

ČKA announced a public tender for the cession of receivables from the company Plynostav Pardubice holding a.s. Based on the Czech Government Resolution of 15 September 2004, this company was placed in the restructuring programme EXIT 2.

Investors have shown enormous interest in the public tender for the cession of blocks of receivables from the portfolio of the company Konpo, s.r.o. An application for the tender was filed by 19 parties in total, including 10 foreign and 9 with their registered offices in the Czech Republic.

By the procedure in accordance with Czech Government Resolution No. 939/2004, ČKA successfully resolved the indebtedness of the municipality of Dolní Břežany.



## December

ČKA announced a single-round public tender for the purchase of 22,740 shares in the company Výzkumný Ústav Pivovarský a Sladařský, a.s. The sole criterion of the tender was the amount of the purchase price offered for the issued securities sold, which accounted for 32.93% of the company's share capital.

On 8 December 2004, the Court of Arbitration at the Economic Chamber of the Czech Republic and the Agrarian Chamber, dismissed fully the action filed by the company VÍTKOVICE HOLDING, a.s. (former LAHVÁRNA OSTRAVA a.s.) whereby this company had claimed the payment of CZK 272.1 million from ČKA on account of unjust enrichment.

On 8 December 2004, the sale of receivables and an ownership interest in the company ZVI a.s. was completed. Based on a public tender, the receivables (7 in total) and 100% of the shares were transferred to the company M.P.I. TRADING, s.r.o. As part of this sale, a receivable of the subsidiary Konpo, s.r.o. from the company ZVI a.s. was also resolved.

On 15 December 2004, in accordance with Czech Government Resolution No. 512/2004, ČKA completed the reduction of debts of the City of Rokytnice nad Jizerou. The remaining portion of the liabilities, some CZK 34 million, will be repaid by the city in individual instalments until the end of the year 2008.

For the year 2004, the volume of guarantees provided under the Agreement on restructuring and guarantees, to the firm Leasing ČS and its subsidiaries, dropped by CZK 205.8 million. The current amount of the guarantee as at 1 January 2005 is CZK 408.6 million.

In 2004, ČKA performed 5 sales of minor blocks of receivables from debtors in the Czech Republic and 1 block from debtors with a registered office in Slovakia, at the total nominal value of CZK 47.8 million.

On 20 December 2004, ČKA issued short-term bonds valued at CZK 5 billion with a maturity of 13 weeks. The issue was repaid on 21 March 2005.

## ACTIVITIES OVERVIEW

### Patents, licences

ČKA has neither acquired nor owns any patents or licences that would be of material importance for its business. At present, ČKA has registered the combined trademarks KOB Praha, s.p.ú., ČKA, Konpo, s.r.o., Česká finanční, s.r.o. and Revitalizační agentura, a.s which are protected by industrial and legal regulations.

### Information on litigations, administrative or arbitration proceedings

In discharge of the ČKA scope of business as defined by the ČKA Act and primarily including the purchase, sale and management of receivables, ČKA, similar to its legal successor KOB Praha, s.p.ú., has been actively involved in conducting court, administrative, or, arbitration proceedings.

The following arbitration proceedings could significantly impact the financial position of ČKA in 2003 and 2004:

In October 2003, ČS, a.s. filed an action with the Arbitration Court at the Economic Chamber of the Czech Republic and Agrarian Chamber of the Czech Republic to pay the amount of CZK 241,783,906.97 and relevant interest and charges, in relation to the dispute on the so-called Motivation Fees under the Restructuring and Guarantee Agreement signed on 1 March 2000 between KOB Praha, s.p.ú., ČS, a.s. and CORFINA, a.s. On 13 May a decision came into effect whereby this action was fully dismissed.

On 25 August 2003, Ing. Bedřich Brabec (a shareholder of KORADO, a.s.) commenced arbitration proceedings against ČKA, EBRD and Messrs. Menclík, Petr and Vobora (shareholders of KORADO, a.s.) before the International Court of Arbitration in London. With regard of ČKA, the petitioner claims that the Company has a duty to notify KORADO, a.s. of the assignment of its receivables resulting from all loan contracts, a duty to surrender to the petitioner through an endorsement of the ownership title to the shares of KORADO, a.s. and a duty to hand the title over to him. Further, he is claiming damages. On 27 February 2004, Ing. Brabec extended the scope of his action by requesting damages in the total amount of CZK 3.375 billion from all defendants. As at 31 December 2004, the final decision in the LCIA proceedings had not been issued.

On 17 February 2004, ČKA filed a total of 3 actions with the Prague Municipal Court for the revocation of arbitration awards issued by the Court of Arbitration at the Economic Chamber and the Agrarian Chamber on 5 November 2003 and 7 November 2003. These arose from original actions for the return of property obtained as a result of unjust enrichment, filed by the company EC Group, a.s. The actions were filed by EC Group, a.s. with the aim of reducing the total consideration that they had paid for the cession of a block of receivables of ČKA 04. The purpose of filing actions for the revocation of some of these awards was to overrule an adverse situation for ČKA, whereby they had to return the relevant portion of the

consideration to the company and, after potential revocation of the arbitration awards by the general court, had to seek a dismissal of the original actions of EC Group a.s. in new arbitration proceedings. The total value of the litigation, i.e. the relevant portion of the consideration which had to be returned to EC Group a.s. and which is at present contested by the actions for the revocation of arbitration awards, amounts to some CZK 230 million. The Prague Municipal Court dismissed two of these actions in autumn 2004 and the Agency lodged an appeal against these dismissals with the Prague High Court. As at 31 December 2004, the appeals had not yet been decided upon.

On 25 February 2004 and 26 February 2004, EC Group, a.s. filed 2 actions against ČKA with the Prague Court of Arbitration, in which it claims the imposition of the obligation upon the Agency to enter into the contract on re-assignment of the receivable. The value of the litigation amounts to some CZK 100 million in the case of the first action and some CZK 220 million in the case of the second. This case had not been decided as at 31 December 2004.

In March 2004, the company LAHVÁRNA OSTRAVA, a.s. filed an action with the Court of Arbitration at the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic against the company VÍTKOVICE, a.s. (1st defendant) and against ČKA (2nd defendant) simultaneously. The action against ČKA was for the return of property obtained as a result of unjust enrichment in the amount of some CZK 272 million on account of ceded receivables from the company VÍTKOVICE, a.s., the greater part of which according to LAHVÁRNA OSTRAVA, a.s., did not exist. On 8 December 2004, an arbitration award No. Rsp 160/04 was issued, whereby the Court of Arbitration dismissed the action against the Agency. The decision on the arbitration award is final and conclusive.

### **Extraordinary events and financial and commercial contracts**

As at 31 December 2004, ČKA resolved a large number of business cases, based on which several contracts have been entered into. The most important contracts may be considered as the six that have been concluded based on Czech Government Resolutions in the years 2000 to 2004:

#### **The contract and state guarantee entered into between the Czech Republic, acting through the Ministry of Finance of the Czech Republic, and Československá obchodní banka, a.s.**

The contract and the state guarantee were concluded on 19 June 2000 (the complete wording by 27 July 2000). Based on the authorisation of the Minister of Finance, rights and obligations under this contract and the state guarantee, are exercised on behalf of the Ministry of Finance by Česká konsolidační agentura, the legal successor to Konsolidační banka, s.p.ú. in liquidation

On 31 August 2001, the Contract on the restructuring plan was entered into by ČSOB, a.s., Konsolidační banka Praha, s.p.ú the legal predecessor of Česká konsolidační agentura and the Czech Republic acting through its Ministry of Finance. The contract regulates the rights and

obligations of the parties in the assignment of assets of the IPB business from ČSOB, a.s. to the Agency.

On 31 July 2003, the Redemption contract was concluded between the Agency, ČSOB, a.s., the Czech Ministry of Finance and subjects of the off-shore structure. Under this contract, all assets of subjects of the offshore structure were transferred through the so-called redemption to the Agency, apart from specific assets that are being assigned gradually to the Agency once legal impediments to their assignment are eliminated.

**Contract on restructuring and guarantees, entered into by the companies Česká spořitelna, a.s., CORFINA, a.s., and Konsolidační banka, s.p.ú. in liquidation.**

Due to its special status, the Agency implements specific restructuring programmes ensuring the stabilisation of large Czech industrial companies and the banking sector. Based on Czech Government Resolution No. 144/2000 on the privatisation of the state ownership interest in business activities of Česká spořitelna a.s. of 2 February 2000, and in compliance with the Contract on restructuring and guarantees entered into on 1 March 2000 by Konsolidační banka, s.p.ú. in liquidation Česká spořitelna, a.s. and CORFINA, a.s. the following steps were taken:

- 30 June 2001: cession of the first part of receivables (1,155 receivables) from ČS, a.s. in the nominal value of CZK 7,905.9 million. The cession price of these receivables was CZK 4,682.5 million.
- 30 June 2002: cession of the second part of receivables (648 receivables) from ČS, a.s. in the nominal value of CZK 6,570.9 million. The cession price of these receivables was CZK 4,110.4 million.
- 31 May 2003: cession of receivables from ECKG s.r.o. from ČS, a.s. in the nominal value of CZK 814.2 million. The cession price of these receivables was CZK 755.7 million.
- Cession of receivables from 82 overdraft accounts in total amount of CZK 616.8 million. The cession price of these receivables was CZK 584.1 million.
- Cession of receivables from bank guarantees given in the total amount of CZK 43.3 million. The cession price of these receivables was CZK 43.1 million.
- 12 December 2003: cession of receivables from Benzina a.s. from ČS, a.s. in the nominal value of CZK 569.8 million. The cession price of these receivables was CZK 569.3 million.
- Cession of two receivables based on a loan contract withdrawing a total amount of CZK 0.1 million through charge cards. The cession price of these receivables was CZK 0.1 million.
- Assumption of receivables with respect to the guarantee from AGROS Bohumilice s.r.o. in the amount of CZK 1.7 million in the fourth quarter of 2004. With respect to this guarantee, ČKA's fulfillment was also 1.7 million.
- Issuance of a guarantee for a one-off balance sheet receivable of ČS as at 31 December 2004 in the amount of CZK 1.2 million.
- Issuance of a guarantee (announcement of a guarantee) on 28 July in favour of CORFINA, a.s. (currently Leasing ČS, a.s.) and its subsidiaries (CORFINA TRADE, s.r.o. a CF Danube

leasing s.r.o.) with a total limit of fulfillment (for all 3 guarantees) in the amount of CZK 1,2 billion. On 31 December 2004, 1,511 receivables were transferred to ČKA, thereby CZK 791,3 million were drawn from the provided guarantee.

From the receivables of CORFINA, a.s. and its subsidiaries (effectively unsecured receivables from terminated lease contracts classified as ČNB 5), 16 blocks of receivables were prepared that were designed for cession (sale) to third parties (3 blocks in 2001, 7 blocks in 2003, 6 blocks in 2004). At the beginning of 2002, the Agency managed to realize the 3 blocks of 2001 for the cession price of CZK 2.2 million, including 84 receivables in aggregate at the nominal value of CZK 39.8 million.

During the course of 2003, the sale of 6 blocks was successfully realised, including 405 receivables at the nominal value of CZK 60.77 million for the cession price of CZK 2.87 million. Only the block ČKA 09 - the Slovak Republic, consisting of receivables from CF DANUBE Leasing has not been realised.

In 2004, the sale of 6 blocks of receivables was realised, including 252 receivables at the nominal value of CZK 47.8 million for the cession price of CZK 2.96 million.

#### **Contract on guarantee entered into between KOB and Komerční banka, a.s.**

The Contract on guarantee has been entered into in connection with the privatization process of Komerční banka, a.s., on 29 December 2000 between Konsolidační banka, s.p.ú., in liquidation and Komerční banka, a.s., on the basis of Point 2), Art III of the Czech Government Resolution No. 1334 of 18 December 2000. On the basis of the Contract on guarantee, Konsolidační banka, s.p.ú., in liquidation undertakes to provide a guarantee with respect to the risk assets of Komerční banka, a.s.; this guarantee relates only to the assets classified as substandard, doubtful or loss in compliance with the methodology of the Czech National Bank.

On 30 October 2003, Komerční banka, a.s. delivered an appeal to ČKA for down payment in the amount of CZK 5,861,745,964.70. ČKA paid the whole amount before 31 December 2003. At 31 December 2003, in accordance with the agreement, no announcement concerning the preparedness to provide payment was made.

In December 2003, in compliance with Article 5.3. of the Contract on Guarantee, ČKA used its right and exercised its Option with respect to a portion of bankruptcy receivables under the state guarantee. This included 95 receivables in aggregate, valued at CZK 610.9 million for which ČKA paid the total sum of CZK 76.5 million during (the course of) April 2004.

On 19 May 2004, in compliance with the Contract on guarantee, Komerční banka, a.s. delivered the call for final settlement to ČKA, based on which the general settlement of the provided state guarantee is performed. The final loss calculated by Komerční banka, a.s. as at 31 December 2003 was CZK 5,314,308,666.87. With regard to the 5% share of Komerční banka, a.s., in its redemption ČKA's performance was CZK 5,048,593,233.53. The difference between the advance and the final loss paid by ČKA, which amounted to CZK 813,152,731.17, was

returned by Komerční banka on 17 June 2004, whereupon ČKA forwarded it to the National Property Fund of the Czech Republic.

After preceding payments from KB to ČKA in the total amount of CZK 64,222,399.58 relating to overpayment for fulfillment of the state guarantee for the period from 1 January 2004 to 17 June 2004 (i.e. until the assumption of receivables by ČKA) an amount of CZK 79 020,79 for one returned receivable was returned to the National Property Fund of the Czech Republic.

In connection with the settlement of the state guarantee, based on the Master agreement on the assignment of receivables entered into on 17 June 2004 between ČKA and Komerční banka a.s., on 18 June 2004 1,794 receivables valued at CZK 1,015.93 million in total were assigned to ČKA. The guaranteed portion amounted to CZK 519.51 million and the not guaranteed portion CZK 496.42 million. For the portion of receivables acquired through the guarantee, ČKA paid CZK 493.54 million (paid in full as part of the payment provided by the National Property Fund of the Czech Republic), for the ceded portions of receivables, ČKA paid CZK 1,794 (CZK 1,- per receivable).

**Letter of Intent to conclude a purchase contract in accordance with Sect. 289 of the Act no. 513/1991 Coll., Commercial Code, as amended, and on the conditions of providing an advance for the purchase price in accordance with the provisions of Sect. 269 of the Act no. 513/1991 Coll., Commercial Code, as amended**

The Letter of Intent was signed on 7 October 2003 between the Czech Republic, acting through the Ministry of Finance, ČKA and Správa železniční dopravní cesty, a national organisation (Railway Traffic Route Administration, "SŽDC"). By signing the Letter, the Czech Republic undertook to conclude a future purchase contract with ČKA for the sale of real properties owned by the Czech Republic that have been marked, under Annex 2, Act no. 77/2002 Coll., to cover liabilities of České dráhy, a.s., a national organisation, and to match the conditions under which ČKA will credit the account of SŽDC (that being the property manager) with an advance for the purchase price for the said real properties. Based on the Letter, ČKA provided an advance of CZK 1 billion for the sale of the real properties as set out in Annex 2, Act 77/2002 Coll., clauses 1, 2 and 4 (structures and land) and an advance of CZK 1.2 billion for the sale of residential buildings as set out in Annex 2, Act no. 77/2002 Coll. (residential buildings approved for privatisation) to SŽDC on 21 October 2003.

**Master agreements on assignment of receivables signed with health insurance companies**

Based on the Czech Government Resolution no. 1184 of 19 November 2003, from 16 through 19 December 2003, ČKA signed nine master agreements with health insurance companies on the assignment of receivables. The following health insurance companies are included in the agreements: Zdravotní pojišťovna METAL - ALIANCE; Vojenská zdravotní pojišťovna ČR; Česká

národní zdravotní pojišťovna; Zaměstnanecká pojišťovna ŠKODA; Zdravotní pojišťovna Ministerstva vnitra ČR; Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví; Revírní bratrská pokladna; Zdravotní pojišťovna; Hutnická zaměstnanecká pojišťovna; and, Všeobecná zdravotní pojišťovna ČR. The scope of the agreements is an arrangement on the method of carrying out the assignment of receivables of the health insurance companies from the health insurance payers whose assets have been declared bankrupt; receivables of the health insurance companies that have been detected in the course of a composition procedure; or, receivables identified during a composition procedure and amounting to more than CZK 300,000. Under the master agreements, ČKA should provide payments totalling CZK 2,946,422,199 in two stages. The first advance of CZK 2,062,495,539.30 (i.e. 70% of the estimated performance) was paid on 22 December 2003. ČKA paid the outstanding balance upon assumption of the receivables by 21 October 2004.

## Main financial investments

### Investment into financial assets

According to Act No. 239/2001 Coll. on ČKA, ČKA is allowed to establish a business company or participate in its establishment, invest the state property with which it is authorized to dispose into a business company, or transfer securities and deal in ownership interests in business companies other than joint-stock companies, but only following the prior approval granted by the Government.

### In the year 2004, the following main operations were realized in conjunction with the investment into ownership interests and bonds:

- In January 2004, ČKA acquired an ownership interest in the VIPAP VIDEM KRŠKO, d.d. worth the face value of CZK 347,939 ths. (13.51% in the share capital).
- Based on the decree of the Czech government, in January 2004, ČKA acquired, 38.5% and in March 2004, 61.5% shares of the Explosia a.s. worth the total face value of CZK 1,165,000 ths.
- In February 2004, ČKA acquired 28.58% shares of the Českomoravská lékárenská platebna, a.s. in liquidation worth the total face value of CZK 17,150 ths.
- In May 2004, an ownership interest in the MUZO, a.s. was sold based on the utilization of the obligatory proposal to accept the ownership interest announced by the PGT Capital, s.r.o. The transaction was approved by the Czech Government on 28 April 2004.
- After the approval of the balance-sheet decree and the regional court in Pilsen's cancellation of bankruptcy, the ADEX, a.s. was deleted from the Commercial Register.
- Based on the Czech Government Resolution No. 1126/2003 and 357/2004, in mid-May 2004, ČKA acquired shares (ISIN CZ0005098251) representing 10.55% in the share capital of ISPAT NOVÁ HUŤ, a.s.
- Based on the Czech Government Resolution No. 319/2004, and based on a tender, on 7 June 2004, ČKA sold shares (ISIN CZ0005117804) issued by the ČKD PRAHA HOLDING, a.s. which represented 47.47% in the share capital of this company.

- In compliance with the above Czech Government Resolution No. 1126/2003, as at 11 June 2004 ČKA also sold 10,000 pieces of registered bonds (ISIN CZ0003501165) which represented 100% of the issue, issued by the TŘINECKÉ ŽELEZÁRNY, a.s.
- On 30 June 2004, an ownership interest in the KRÁLOVOPOLSKÁ, a.s. was sold.
- On 30 June 2004, there was an acquisition of a 100% share of limited partnership in CZ CREDIT REAL, k.s. based on an agreement on a transfer of a limited partnership share.
- After the decision to dismiss the declaration of bankruptcy came into effect due to the shortage of assets, the VSM ČR joint-stock company in liquidation was deleted from the Commercial Register, namely as at 7 July 2004.
- Within the framework of a transfer of securities out of so-called offshore structures of ČSOB, a.s., and based on a Redemption contract concluded on 30 March 2003, on 27 July 2004, ČKA acquired a 100% ownership interest in the Global Investment a.s. company, which is represented by 744 pcs of ordinary bearer shares in paper form of face value of CZK 1,000,000/piece. This was acquired namely through a transfer from the Tritton Development Fund Ltd. to ČKA.
- On 24 August 2004, an ownership interest in UNIPLET GROUP a.s. (formerly TRUSTFIN, a joint-stock company) was sold to the Monarch Machinery LLC based on the appropriate agreement on the purchase of securities. The transaction was approved by the Czech Government on 28 April 2004.
- At the beginning of October 2004, based on the Czech Government Resolution No. 218/2004, ČKA acquired shares issued by AERO Vodochody a.s., which represent 17.64% in the share capital of the company. Česká konsolidační agentura thus currently owns shares issued by AERO Vodochody, a.s. representing a share of 46.65% in the share capital of this company.
- On 8 December 2004, an ownership interest in ZVI a.s. of M.P.I. TRADING, spol. s r.o. was sold, based on the appropriate agreement on the purchase of securities following a public tender. The transaction was approved by the Czech Government on 20 October 2004.

## Non-financial investment

This is a current and inevitable investment into the operation of ČKA/KOB, more extensive adjustments of buildings, or rather the security of buildings for displacement of operational areas necessary for the operation of subsidiaries. The funding of such an investment is ensured by the Agency's own resources.

(in CZK mil.)	2003	2004
Investments total	185	3
Of which:		
Buildings	166	0
Other investments	19	3



## Main future investments

### ČKA investments planned for 2005

Objem investic celkem (v mil. Kč)	3.5
Operating investments	3.5
- Buildings	0.3
- Tangible Assets +tangible fixed assets (equipment)	1.2
- Tangible assets IT	1.5
- Intangible assets - Software	0.5
Non-operational investments - buildings	0.0

## Information about main activities

**The most important contractual arrangements, business operations and other events having material impact on the activities and results of Česká Konsolidační Agentura in 2004:**

### Assignment of assets from Česká spořitelna, a.s

In 2001, under the Contract on restructuring and guarantees entered into on 1 March 2000, pertaining to the assumption of credit risks from low quality balance sheet and off-balance sheet assets from the companies Česká spořitelna, a.s., CORFINA, a.s., CORFINA TRADE, s.r.o. and CF Danube Leasing, s.r.o., Česká spořitelna, a.s. exercised the sale option for the assignment of selected assets. In 2004 it assigned to the Agency selected assets at the book value of CZK 189 million from the ČS Group, for which the Agency paid incentive fees of CZK 19 million. The Agency created provisions valued at CZK 180 million that are included in provisions for classified loans for the assets assigned in this manner, while it has released the previously created provisions. As at 31 December 2004, provisions for guarantees with respect to other anticipated assignments from Česká spořitelna, a.s. amount to CZK 410 million.

### Contract on guarantee and privatisation of Komerční banka, a.s.

On 29 December 2000, a Contract on Guarantee was entered into, the subject of which was the guarantee for selected risk assets of Komerční banka, a.s. up to the amount of CZK 20 billion. Under this contract, KB, a.s. exercised the purchase option for the assignment (transfer) of selected assets in 2003. In 2004 it assigned the above assets in the book amount of CZK 76 million. The Agency has created provisions in an aggregate amount of CZK 37 million for assets assigned in this manner, which are included in provisions for classified loans.

### **Assignment of assets of the former IPB from ČSOB, a.s.**

In 2004 under the Contract and the state guarantee of 19 June 2000 and the Contract on the restructuring plan of 31 August 2001 („Contract on RP“), whereby the assets of the former IPB bank were designated for assignment to the state and under which the contracting parties undertook to enter into the relevant contracts on the assignment of assets, rights and property values set out in annexes to the Contract on RP, certain limited partners' majority ownership interests in the limited partnerships CZ CREDIT REAL, k.s. (CZK 2 billion) and ARTA REAL, k.s. (CZK 1.5 billion) were assigned to ČKA.

### **Sale of real estate property**

Based on the state guarantee contract dated 19 June 2000 and the Restructuring plan contract dated 31 August 2001, ČSOB, a.s. ceded a total of 16 real estate properties to ČKA in the total amount of CZK 1,3 billion. All these properties were offered for the use of state organizations. Six properties in the total amount of CZK 748 million were transferred for no consideration. Another nine properties in the amount of CZK 524 million, for which the state organization did not find any use, were sold in a public voluntary auction or tender for CZK 466 million. The remaining real estate property amounted to CZK 26 million will be offered for sale in the first half of 2007 at the latest.

Further, based on Government Resolution No. 302, dated on 26 March 2003 and No. 380, dated on 14 April 2003 as well as an assigned letter from the Minister of Finance (No. 06/33520/2003, dated on 15 April 2003), there was a voluntary transfer of the Hybernska area 997,998/2,4 Prague 1 from the Ministry of the Interior to ČKA. Properties will be sold through a public auction in 2005, immediately after clarifying ownership relations.

The training center Koloděje nad Lužnicí is for sale due to no further use in 2005 in public auction. (New information: The training center Koloděje nad Lužnicí was sold in May 2005).

**List of real estate property owned by the Czech Republic, administered by the Agency as at 31 December 2004**

	Property	Ident. number	Number of the plot	Area (sqm)	Acq. price (CZK ths.)
1.	Praha 1, Na Příkopě 3-5	390	st. 484	1,271	101,599
2.	Praha 7, Janovského 2	438	st. 1255	4,433	442,094
3.	Praha 7, nábř. Kpt. Jaroše	1000	st. 1260	6,808	149,480
4.	Dolní Dvůr	21	st. 85/1, st. 425	956	23,556
5.	Koloděje nad Lužnicí	66, 105	st. 127, st. 129, st. 502, 485/2, 485/10, 1276/13, 1311	1,765	6,800
6.	Ostrava	1448	st. 470/13	243	17,417
7.	Pozemky Letňany		544/50, 52, 54, 55, 84, 85, 86, 87, 547/9, 808/2	29,891	26,299
8.	Praha 1, Hybernská 2,4	997, 998	510, 511	5,173	Free of charge

### Health insurance companies

On 19 November 2003 the Czech Government Resolution No. 1184+P of 19 November 2003, concerning the Project of cession of part of the receivables of health insurance companies in respect of the payers of overdue premium for public health insurance to Česká konsolidační agentura. The subject of the Project was the cession of the realised, examined and identified receivables of individual health insurance companies, from payers of health insurance contributions in bankruptcy proceedings or composition proceedings, at a nominal value of over CZK 300,000 per receivable, to Česká Konsolidační Agentura.

On 19 December 2003, ČKA concluded master agreements on the assignment of receivables with all the health insurance companies involved. Subsequently, on 22 December 2003, an advance of consideration amounting to 70% of the sum set out in Czech Government Resolution No. 1184/2003, i.e. CZK 2,062.5 million, was credited to the accounts of health insurance companies. In the period from 16 February 2004 to 30 September 2004, ČKA concluded a total of 504 agreements with health insurance companies on the assignment of receivables with an aggregate nominal receivable value of CZK 2,945.4 million. This represents almost 100% of the limit for the total nominal amount of the assigned receivables determined by the Project. The entire process of the assignment of receivables, including the transfer of the final supplementary payment of funds to bank accounts of health insurance companies, was completed by ČKA on 15 October 2004.

## **Credits for co-operative housing construction administered by ČSOB**

By Czech Government Resolution No. 206 of 23 March 1998, the transfer of financing and crediting of co-operative housing construction from IPB to KOB, the legal predecessor of ČKA, was decided upon.

In 2004, in accordance with the above Resolution, ČKA continued in the management of receivables from loans which had arisen in connection with the co-operative housing construction.

### **A. ČKA's receivables from housing co-operatives under loans for co-operative housing construction**

As at 31 December 2004, ČKA disclosed in its balance sheet a total of 15,065 receivables from 507 housing co-operatives under loans for co-operative housing construction. This totalled approximately CZK 8,559.6 million, including some CZK 0.5 million of overdue loans. Outstanding loans are attached to some 351.5 thousand housing units.

All loans are currently in the repayment regime, no further drawdown will take place. Loans are repaid by half-yearly annuities payable as at 30 June and 31 December of the current year. So far, the payment discipline of housing co-operatives is good. As at 28 February, the volume of classified loans was some CZK 12.6 million, provisions of approximately CZK 2.3 million were created.

Under the loan contracts entered into with the housing co-operatives, the last loans for housing construction are due as at 31 December 2035. Before ČKA's activities are wound up, the collection of annuities in the aggregate amount of some CZK 1,911.1 million is anticipated (including the principal of CZK 1,677 million) as well as the closure of 2,354 accounts of receivables from loans for the co-operative housing construction. As at 31 December 2007, a total of 12,707 receivables from loans for housing construction totalling some CZK 6,882 million will remain outstanding.

### **B. Redistribution loan for the co-operative housing construction from ČNB (The Czech National Bank) (liabilities of the co-operative housing construction)**

At the end of 2004 the balance of the redistribution loan from ČNB, that was extended to cover the loans for the co-operative housing construction, amounted to CZK 8,559.6 million. ČNB joined the European System of Central Banks and is subject to the relevant provisions of the system, under which ČNB's receivable from ČKA arising from the redistribution loan is inadmissible. As a result of this and based on Czech Government Resolution No. 45 of 14 January 2004, the Minister of Finance was charged with the task "prior to the winding up of the ČKA's activities to resolve the settlement of liabilities to ČNB arising from the redistribution loan extended with the aim of covering the receivables from the co-operative housing construction". Subsequently, by a letter from the Minister of Finance on 21 January 2004, ČKA was assigned to negotiate possible ways of implementing the task and that specific proposals for a decision be prepared by 30 June 2005.

By the settlement of ČKA's liabilities to ČNB, ČNB intends the earliest possible repayment of the redistribution loan guaranteeing full compliance with European Union legislation. The solution of the relevant liability to ČNB has been agreed with the Ministry of Finance to be realised in 2005 (tentatively for the 3rd quarter), by means of the early repayment of the redistribution loan. It will use the liquidity surplus resulting from the partial repayment of ČKA's losses from funds obtained through the issue of bonds of the Ministry of Finance under Act No. 5/2005 Coll. on the state bond programme for the redemption of a part of ČKA's loss which arose due to the assumption of low quality assets in the years 1991-2003. This time limit is also envisaged in the draft timetable for the redemption of losses in 2005.

Under Annex No.18 to the loan contract of 26 May 1992, that was concluded with ČNB on 3 February 2005, it was agreed that the early repayment of the entire balance or part of the redistribution loan may be performed at any time without imposition of sanctions, if announced at least 3 business days prior to the date of realisation.

The following refinancing of receivables from loans for the co-operative housing construction has been secured from other currently available resources of ČKA.

A necessary prerequisite for early repayment of the redistribution loan is the conclusion of an annex to the Contract of 7 May 1998, on compensation for proprietary loss, as amended by Annexes No. 1 - 23, with respect to a change in the calculation of the proprietary loss pertaining to the co-operative housing construction. The contract stipulates that "if there are any material changes in the system of financing and the provision of a loan, or if interest rates on a long-term preferential loan provided by Česká národní banka to ČKA are adjusted (changed), the amount of compensation for the proprietary loss shall also be adjusted in order to reflect new conditions by way of an additional annex to the Contract."

The new manner of calculating the proprietary loss will be laid down in the subsequent annex No. 24 to the Contract on compensation for proprietary loss of 7 May 1998, which needs to be concluded with the Ministry of Finance prior to the repayment of the redistribution loan.

### **Správa Železniční Dopravní Cesty, national organisation (SŽDC)**

A proposal for the solution of receivables and payables (liabilities) of SŽDC was adopted by the Board of Directors of ČKA by its Resolution No. 762/03 of 25 August 2003 and by the Supervisory Board of ČKA by its Resolution No. 202/2003 and 203/2003 of 28 August 2003. The Government of the Czech Republic approved by its Resolution No. 908 of 10 September 2003, on the issue of receivables and payables (liabilities) of the former České Dráhy (The Czech Railways) as of 31 December 2002, the following three areas of solution:

- A. Cession of the receivables of SŽDC (former České Dráhy, s.o.) to ČKA up to the maximum nominal value of CZK 500 million by 31 December 2003, for consideration at 80% of the nominal value of each individual receivable.
- B. „The letter of intent on the conclusion of future purchase contract pursuant to provisions of Sect. 289 and other provisions of Act No. 513/1991 Coll., the Commercial Code, as amended and under the conditions for the provision of an

advance for the purchase price pursuant to the provisions of Sect. 269 of Act No. 513/1991 Coll., the Commercial Code, as amended“, based on which ČKA will provide SŽDCC with an advance up to the maximum amount of CZK 2.2 billion for the purchase price of state-owned real estate designated for sale under Act No. 77/2002 Coll. The state-owned assets (according to Annex No. 2 to Act No. 77/2002 Coll..) were assumed for administration by the client under the Contract on temporary administration of movable and immovable assets of 2 January 2003, and the Contract on temporary administration of housing installations and flats of 2 January 2003, entered into between (the Czech Republic -) the Ministry of Transport of the Czech Republic and SŽDC.

- C. The issue of bonds by SŽDC up to the maximum amount of CZK 7 billion with a maturity of 5-10 years, arranged by ČKA.

The implementation of the relevant Czech Government Resolution No. 908 of 10 September 2003 was carried out as follows:

- A. By 31 December 2003, 1,615 receivables of SŽDC (958 clients) were ceded to ČKA in the aggregate amount of CZK 329.6 million, at the nominal value of CZK 319.7 million. The consideration at 80% of this nominal value was CZK 255.7 million. Of the total number of ceded receivables, 216 receivables are from clients whose assets were declared bankrupt and 90 receivables from clients whose companies were in liquidation.
- B. On 7 October 2003, under the „Letter of intent on the conclusion of future purchase contract pursuant to provisions of Sect. 289 and other provisions of the Act No. 513/1991 Coll., the Commercial Code, as amended and on conditions for the provision of an advance for the purchase prices pursuant to the provisions of Sect. 269 of the Act No. 513/1991 Coll., the Commercial Code, as amended“ (the „Letter of intent“) entered into between ČKA and the Czech Republic - The Ministry of Transport of the Czech Republic and SŽDC (as a secondary party to the contract) ČKA provided an advance to its client for the sale of real estate pursuant to Annex No. 2 to the Act No. 77/2002 Coll. This was in the amount of CZK 1 billion, with a maturity of 31 December 2005, for the sale of selected real estate (constructions and land) and in the amount of CZK 1.2 billion, with a maturity of 31 December 2006 for the sale of selected housing installations.

In the case that the real estate in question fails to be sold to third parties and the advances rendered are not returned by 28 February 2006 (CZK 1 billion) and by 28 February 2007 (CZK 1.2 billion), ČKA and the client will enter into purchase contracts for the sale and purchase of real estate up to the amount of the unreturned advance. The obligation to enter into future purchase contracts shall lapse if SŽDC returns the provided advances to ČKA by 31 December 2005 (CZK 1 billion) or by 31 December 2006 (CZK 1.2 billion).

For the provision of an advance for the purchase of real estate, the client

undertook to pay the Agency a monthly fee at 6M PRIBOR + fixed fluctuation of 0.4% p.a. (as at 7 April 2004 in the amount of 2.038 + 0.4% p.a.). The client meets this obligation.

The proceeds (revenues) of ČKA from the provision of the advance of CZK 2.2 billion for the purchase price of real estate are comprised of the above monthly fee, where the surcharge covers the value of resources that ČKA uses for refinancing (the margin on these funds is up to 0.2% p.a.). The Czech Government Resolution No. 908 of 10 September 2003 on the payment of an advance of CZK 2.2 billion for the purchase price of real estate to SŽDC, was implemented by entering into the Letter of intent of 7 October 2003 and by the provision of an advance for purchase prices. The market value of real estate for which the Letter of intent has been concluded amounts to CZK 2.4 billion. The client keeps ČKA updated on the preparation of the sale of assets.

- C. ČKA arranged the issue of SŽDC bonds valued at CZK 7 billion and their placement on the financial market. ČKA and SŽDC concluded a Contract of Mandate on 5 December 2003. Based on this agreement, issue documentation was prepared in cooperation with the legal advisors of both parties. Subsequently, on 16 December 2003 an application was submitted to the Czech Securities Commission which approved the issue conditions by its Decision ref. no. 45/N/957/2003/2 of 23 January 2004. ISIN number: CZ0003501397 was assigned to the issue.

On 11 February 2004 with approval of the issuer (SŽDC) ČKA, as main manager, prepared a syndicate of underwriters and fixed the final issue parameters indicated below:

Issue rate:	99,988% of the nominal value of the bond
Date of issue:	3 March 2004
Value of coupon:	4,60% p.a.
Coupon payment date:	annually on 3 March
Final due date:	3 March 2011

D.

The entire issue (i.e. CZK 7 billion) was subscribed without the direct participation of ČKA, its obligation to subscription was based on an agreement concluded with SŽDC. By the date of issue of the bonds above mentioned, the government resolution was partially realised.

### **ČKA's receivables from bankrupt clients**

During the calendar year of 2004 a drop in the balance of ČKA's receivables from bankrupt clients occurred, which resulted in a decrease from CZK 52.6 billion to CZK 50.5 billion of gross book value. The number of bankrupt clients in the same period grew from 1,102 to 1,413. A drop in the balance of the above receivables from bankrupt clients was influenced, in particular, by partial settlement of receivables and subsequent write-offs resulting from the completion of bankruptcy proceedings or their sale.

In 2004, receivables from bankrupt clients were assumed based on Czech Government Resolution No. 1184 of 19 November 2003, as part of implementation of the „Project of cession of part of the receivables of health insurance companies from payers of health insurance contributions overdue to Česká konsolidační agentura“. This included 385 receivables totalling CZK 2.9 billion. In connection with the implementation of the Contract on guarantee, receivables of bankrupt clients from Komerční banka, a.s. were also assigned to Česká konsolidační agentura.

Through its representatives in creditors' authorities, ČKA exerts considerable efforts to speed up and optimise the process of realisation of the bankrupt client's assets, and apart from this activity also recovers receivables from guarantors (mostly through the courts).

### **ČKA's receivables from clients in liquidation**

These involve a specific group of clients at risk who are not already gainfully employed and satisfy their creditors' claims solely using the resources generated by the sale of chattels, properties and other assets. At 31 December 2004, 113 clients in liquidation were recorded with the nominal value of CZK 14.5 billion.

Reducing the numbers of clients in liquidation has been handled primarily by assignments of receivables for consideration (both block and individual assignments). A significant proportion of such clients end up in bankruptcy instituted due to the petition lodged either by the debtor, by ČKA or by another creditor. The number of clients in liquidation whose debt is eventually repaid in full is minimal.

Receivables from the above clients are therefore required to be resolved first through court procedures, by filing complaints for repayment of amounts owed with the court of jurisdiction. In the event of final and conclusive titles (judgments, payment orders), the client may be subsequently resolved through the distraintment

### **Interbank and capital market, liquidity management**

Significant factors for liquidity management were transfers of assets to the Agency (SŽDC, health insurance companies, etc.), sales of assets and redemptions of losses (in March, October and November the Ministry of Finance of the Czech Republic paid part of the loss of KOB/ČKA in the aggregate amount of some CZK 18.2 billion).

In the last year, the Agency used the following instruments when managing liquidity:



## Deposit operations

### Client deposit accounts

In the course of the year several short-term contracts on deposit accounts were concluded with clients, of which the most important ones were with the National Property Fund of the Czech Republic, trustees in bankruptcy and subsidiaries. The total volume of principals as at 31 December 2004 was approximately CZK 10.007 billion.

### Promissory notes

In the course of the year, ČKA issued promissory notes with various maturities. The aggregate value of sums decreased in the course of the year by some CZK 0.9 billion. As at 31 December 2004 the volume of current draft sums amounted to approximately CZK 6.153 billion.

### Loans payable and commitments

In the course of the year, revolving loan commitments valued at CZK 15 billion were received, from which tranches were drawn according to the liquidity needs of ČKA. As at 31 December 2004 the total value of available loan commitments was CZK 20.3 billion.

## Investments

### Investments of ČKA at 31. 12. 2004 with a share of the share capital higher then 5%

Company name	ID	Share Capital (CZK ths.)	Share ČKA on SC (%)
ARTA REAL, k.s.	26174545	2,900,000	100.00
CRF Praha a.s. in liquidation	64949214	434,378	100.00
CZ CREDIT REAL, k.s.	26174553	2,900,000	100.00
Česká finanční, s.r.o.	47450622	200	100.00
IPB REAL INVESTMENT, a.s.	25748360	50,000	100.00
Konpo, s.r.o.	26149729	100	100.00
První východní a.s.	25076396	5,000	100.00
PRISKO a.s.	46355901	794,760	100.00
Explosia a.s.	25291581	1,165,000	100.00
Global Investment a.s.	25071858	744,000	100.00
TCHECOMALT GROUP, a.s.	25308882	400,000	99.93
BH CAPITAL, a.s.	00546682	1,020,248	71.89
Autoklub Bohemia Assistance, a.s.	61859559	120,000	69.00
Výzkumný a zkušební letecký ústav, a.s.	00010669	750,968	47.55
AERO Vodochody a.s.	00010545	2,691,926	46.65
Jihočeské papírny, a.s., Větrní	00012297	452,150	38.89

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Jihočeské lesy České Budějovice, a.s.	47239263	700,413	36.36
České aerolinie a.s.	45795908	2,735,510	34.59
KORADO, a.s.	25255843	840,700	34.22
Výzkumný ústav pivovarský a sladařský, a.s.	60193697	69,055	32.93
GALILEO REAL, k.s.	26175291	2,900,000	31.03
Českomoravská lékárnická platebna, a.s. in liquidation	63999340	60,000	28.58
BRNO INN, a.s.	60700238	240,000	25.83
Lesní společnost Hradec Králové, a.s.	47452706	678,994	21.13
INTEGRA, a.s.	60196530	838,992	20.41
Letov, a.s.	00010626	1,798,833	17.46
Svit a.s. Zlín	00013552	2,415,044	17.15
VÁLCOVNY PLECHU, a.s.	14613581	688,241	16.97
CHEMAPOL GROUP, a.s.	00000744	2,506,404	14.71
ZVVZ a. s.	00009041	677,011	13.92
První česko-ruská banka, s.r.o.		3,510,152 *)	13.87
CONSUS INVESTIČNÍ FOND a.s. in liquidation	10000500	522,861	13.61
VIPAP VIDEM KRŠKO d.d.	5971101	2,574,950	13.51
Přerovské strojírny a.s.	00008311	345,941	11.81
IMOB a.s.	60197901	2,200	11.36
ISPAT NOVÁ HUŤ a.s. **)	45193258	12,390,257	10.97
E L I T E X, a.s.	00483150	65,610	10.11
SPOLANA a.s.	45147787	885,229	9.76
ŠKODA a.s.	00213101	9,479,710	6.65
Union Group, a.s.	64609952	2,300,000	5.22

**Notes to table:**

\*) amounts in ths.. RUB

\*\* ) in February 2005 company was renamed on Mittal Steel Ostrava a.s.

In the year 2004, investments in the companies TRUSTFIN, a.s. (100,00%), ZVI a.s. (100,00%), KRÁLOVOPOLSKÁ, a.s. (67,00%), ČKD PRAHA HOLDING, a.s. (47,47%), MUZO, a.s. (20,86%) were sold.

ADEX, a.s. was erased from commercial register in April 2004. VSM ČR, a.s. in liquidation was erased from commercial register in July 2004 .

In January 2004, Investiční fond obchodu, cestovního ruchu a služeb, a.s. (The Investment Fund for Trade, Tourism and Services, a.s.) was converted into an open-ended mutual fund.

In 2004, securities of the companies Explosia a.s. (100.00%) and ISPAT NOVÁ HUŤ, a.s. (10.97%) were acquired on a contractual basis.

In 2004, the ownership interest in ARTA REAL, k.s. was increased by 51.79%, in CZ CREDIT REAL, k.s. by 68.97%, in AERO Vodochody a.s. by 17.65%, and in První Česko-Ruská banka, s.r.o. (First Czech-Russian Bank) by 8.84%.

Based on the Redemption contract of 31 July 2003, securities of the companies Českomoravská Lékárnická Platebna, a.s. (28.58%), Global Investment, a.s. (10.00%) and VIPAP VIDEM KRŠKO d.d. (13.51%) were acquired in 2004.

## Solution of loans for high turnover inventories

At its session on 7 November 2001, the Czech Government discussed the material submitted by the Ministry of Finance of the Czech Republic "Proposal for the systemic solution of receivables arising from loans extended for high turnover inventories". With respect to the discussed material, Resolution No. 1141 was adopted, whereby the Government approved that ČKA:

1. will change the interest rate charged on given receivables as follows:  
starting from the first month following the approval of the proposed solutions by the Government, it will charge on overdue receivables, i.e. the unrepaid principal and unrepaid interest, late charges of 0.1% p.a., instead of the previously applied 5%. The solution is applicable to all receivables from loans extended for high turnover inventories. The reduced interest rate has been charged by ČKA since 1 December 2001.
2. will cease to recover receivables up to CZK 380,000 in cases where the total amount of an individual receivable (nominal value of principal, interest, late charges and the costs of recovery of the receivable) was CZK 380,000 as a maximum. This related to one credit case as at 30 September 2001.

On 13 January 2003, the Czech Government approved Resolution No. 59+P "on the Procedure for systemic solution of receivables arising from loans extended for high turnover inventories, the amount of which exceeded CZK 380,000".

The implementation of this systemic solution consisted of the application of the legal institute of "waiver of debt" regulated in the provisions of Sect. 13 (8), in conjunction with the provisions of Sect. 5 (6) of Act No. 239/2001 Coll. on Česká konsolidační agentura.

A necessary prerequisite for the implementation, within the meaning of Sect. 13 (8) of Act No. 239/2001 Coll., on Česká konsolidační agentura, was compliance with the statutory conditions listed below:

1. a case worthy of special attention,
2. if the debtor's financial situation justifies such a procedure,
3. if this is in ČKA's business interest,
4. a debtor must ask the creditor for the waiver or partial waiver of debt,

5. a debtor must not have any receivable with respect to the state, unless he/she grants waiver up to the amount of his/her debt
6. a debt that has arisen in connection with criminal activity cannot be waived ,
7. waiver of debt must be authorised by the Minister of Finance and the competent Minister.

By Government Resolution No. 59+P of 13 January 2003, the systemic solution of receivables arising from loans extended for high turnover inventories the amount of which exceeded CZK 380 million as at 30 September 2001, was adopted.

The criteria for clients, with respect to whom Government Resolution No. 59+P may be applied, were met by a total of 366 debtors of ČKA. The Government Resolution was used by 141 debtors of ČKA. The possibility to apply for waiver of the debt was not used by a total of 225 debtors. It was impossible to deliver the information letter to 95 debtors, and a total of 130 debtors did not respond to the letter. The aggregate sum of CZK 367.7 million was repaid. A total of CZK 292.1 million was waived. The impact on profit/loss of ČKA was CZK 109.4 million profit.

### **Restructuring programme EXIT/ROZVAHA**

The restructuring programmes EXIT and ROZVAHA are programmes for stabilisation and revitalisation of selected industrial companies. They represent a set of solutions for the financing of industrial companies with an excessive debt or thin capitalisation and their restructuring, including changes in ownership relations. These are companies with a direct state ownership interest or loan participation that are within the portfolio of assets of ČKA. The nomination of firms to which these programmes apply is performed by the Czech Government Council - Investment Council appointed based on Government Resolution No. 1000 of 3 October 2001. The Government decides on the placement of companies in the restructuring programmes.

The companies restructured within the programme EXIT/ROZVAHA

Client	Government resolution (number / date)	Public tender date	Public tender result (winner, transferee, not announced)	Client production scope
BSK Přestanov	194 z 24. 2. 2003	2. 5. 2003	Osprey, a.s.	Production of building ceramics
CETOS, a.s.	578 z 5. 6. 2002	21. 11. 2003	Česká typografie, a. s.	Light engineering production
ETA a. s.	194 z 24. 2. 2003	2. 5. 2003	Plastkov, s.r.o.	Production of electrical devices
Hutní montáže Ostrava, a.s.	521 z 22. 5. 2002	25. 4. 2002	Superfektus, a.s.	Assembling steel constructions and technological devices.
Interma, akciová společnost	578 z 5. 6. 2002	Přímý zájemce	COMMERZBANK AG, a.s. pobočka Praha	Construction work.
Jihočeské papírny, a.s., Větrní	642 z 23. 6. 2004	4. 10. 2004	SYNEX CZ a.s.	Non-production holding company, activities of economic and organisational advisors
KOVOŠROT PRAHA, a.s.	7. 4. 2004	Konpo, s.r.o. - opak. VVŘ 15. 3. 2005	Probíhá vyhodnocování	Processing of metal waste
METRA BLANSKO a.s.	7. 10. 2002	22. 4. 2003	Média World Int., a.s.	Production of measuring devices
MORA, a.s.	578 z 5. 6. 2002	14. 1. 2003	Magnum Production, a.s.	Production of machines and non-electrical household devices
NOVESTA a.s.	24. 2. 2003	29. 4. 2003	E1CZ, s.r.o.	Production of rubber footwear
Obráběcí stroje Olomouc, spol. s r.o.	969 z 7. 10. 2002	16. 2. 2005	VVŘ zrušeno	Engineering, locksmith work, metal-working, production of tools
PERLA, bavlnářské závody, a.s.	24. 2. 2003	13. 5. 2003	Velveta a.s.	Production of shirting and fabrics
Plynostav Pardubice holding akciová společnost	887 z 15. 9. 2004	15. 11. 2004	České přístavy, a.s.	Building and reconstruction of pipeline systems
PRAGA Hostivař a.s.	22 .5. 2002	Přímý zájemce	Grampelhuber Gesellschaft m.b.H.	Production of gearboxes, hydraulics
PSJ holding, a.s.	9. 7. 2003	20. 7. 2003	HYDROSTAV BRATISLAVA s.r.o., - Vlčie Hrdlo, a.s.	Construction work
ROTAS STROJÍRNÝ spol. s r.o.	1034 z 20. 10. 2003	27. 4. 2004	Lumír Kot	Engineering, locksmith work, metal-working
Tusculum a. s.	521 z 22. 5. 2002	13. 8. 2002	JITONA a.s.	Designer's and window-dresser's work, joinery
VÝTAHY, a.s.	5. 1. 2005	18. 3. 2005	Probíhá vyhodnocování	Production, assembly and servicing of lifts, production of lifting platforms, gate doors
Zetor Trade, s.r.o + ZETOR P.D.C., a.s.	235 z 23. 2. 2005	4. 3. 2005	Intern, a.s.	Production and sale of tractors and spare parts, trademark Zetor

## Key risk factors in financial management

Since the Agency has been afforded the special position of state guaranteed institution, the financial risk management has been focused on definition and monitoring of procedures, methods and limits of the credit, currency and liquidity risks.

The credit risk management is based, in accordance with the recommendations of the Basel Committee on Banking Supervision, on an internal rating system of ČKA, specifically in relation to banks and banking institutions. The rating prepared for these debtors is assessed, for the purposes of the above use, as a risk rate resulting from the capacity of the debtor entity to honour both its short and long term liabilities to ČKA as creditor. ČKA's exposure to credit risk has been dropping significantly alongside continued settlement of receivables, as well as due to the fact that at the end of 2004, 55% of the net book value of receivables held by ČKA was represented by receivables from governmental or state institutions.

Currency risk exposure for ČKA, resulting from movements in foreign currencies in relation to the Czech crown, has been actively managed through FX deals, while compliance with the currency risk limits is actively monitored. As at the year end, ČKA managed more than 99% of the net amount of its balance sheet assets and liabilities denominated in CZK.

The Agency has also been monitoring and assessing the performance of limits for liquidity risk management and, to that end, has also been preparing and evaluating an overview of actual and residual maturities of assets and liabilities.

The limits set for management of liquidity, currency and credit risks, as well as limits for credit lines for banks and financial institutions and economically related client groups, were maintained with a sufficient reserve throughout 2004.

In view of the amount of specific provision (i.e. valuation allowances) and general provisions established to cover the expected loss risk and given the available amount of the single purpose reserve fund (also designated to cover expected losses on specified loans), or, given also the fair value of investment assets, there is no expectation that the settlement of these assets currently being prepared, should involve any significant financial losses affecting the income statement during the period until the discontinuation of ČKA's operation.

Within the above context, a potential risk factor could be seen in a possible increase of the estimated low level loss, resulting from contingent assumption of additional poor quality assets, potentially imposed by relevant decisions of the Government or House of Delegates. ČKA may acquire new assets for consideration until 31 Dec. 2005, except for the acquisition for consideration of assets resulting from legal acts already taken prior to the date of effect of Act no. 482/2004 Coll., amending Act no. 218/2000 Coll., On Budgetary Rules, certain related amending acts ("Budgetary Rules"), as amended, and other sundry acts. Except for the acquisition of assets relating to management of risks and liquidity and procurement of resources on the financial market, ČKA may only acquire assets based on a Government decision or with the consent of the House of Delegates as per Sect. 3(5), Act no. 239/2001 Coll. Should the consideration for acquisition of assets rendered by ČKA exceed, in aggregate with the prior considerations based on the Government decisions as per Sect. 3(4), Act no. 239/2001 Coll., the amount of CZK 1 billion within a single calendar year, realisation of any

such business deal will require consent by the House of Delegates.

Other risk factors of financial management that were previously decisive and had material bearing on the amounts of disclosed losses in the past, such as the impaired value of eligible securitisation vehicles (collateral) for loans or the quality of clients, have been affecting the ČKA's financial performance within a foreseeable extent, given the current structure of the asset portfolio and ČKA activities, and are no longer classified as risk factors with a major impact.

## Information on securities

### ČKA securities issues

#### I. Independently emitted issues of bonds

Konsolidační banka, s.p.ú., in liquidation as a legal predecessor of Česká konsolidační agentura, has emitted, since 1996, three issues of bonds in the total face value of CZK 14 billion. As at 31 December 2004, only one issue of bonds was in circulation, which does not justify their holders to enforce the right of exchange for participation securities.

Issue KOB var/05	ISIN CZ0003700478
Type:	bond
Form:	bearer
Format:	book-entered
Issue value:	CZK 5,000,000,000
Nominal value:	CZK 10,000
Coupon:	floating in the amount of (6M PRIBOR + 0.125% p.a.) payable on a half-yearly basis, on 17 September and on 17 March every year
Issue date:	17 March 1998
Maturity date:	17 March 2005
Guarantee:	Bonds are secured by the guarantee of the Czech Republic, as defined in Section 44 of the Act on banks.

No pre-emption or exchange rights are attached to the bond.

The amendment of the issue terms and the Prospectus of the bond program have been approved based on the decision of the Ministry of Finance Ref. No. 103/82 584/97 of 24 November 1997.

The issue was settled in accordance with the issue conditions on 17 March 2001.

#### II. Issue of bonds of Česká konsolidační agentura based on approved first issue programme of long-term and middle-term bonds established in August 2001

Issue ČKA 5,05/07	ISIN CZ0003700627
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Type: bond  
 Form: bearer  
 Format: book-entered  
 Issue value: CZK 5,000,000,000  
 Nominal value: CZK 10,000  
 Coupon: fixed in the amount of 5.05%, payable once a year on 10 June  
 Issue date: 10 June 2002  
 Maturity date: 10 June 2007  
 Guarantee: Bonds are secured by the guarantee of the Czech Republic, as defined in Section 1 Article 3 of the Act on ČKA.

No pre-emption or exchange rights are attached to the bond.

The amendment of the issue terms and the Prospectus of the bond program have been approved based on the decision of the Securities Commission Ref. No. 45/N/14/2001/2 of 17 May 2002.

**Issue ČKA var/05 ISIN CZ0003700635**

Type: bond  
 Form: bearer  
 Format: book-entered  
 Issue value: CZK 10,000,000,000  
 Nominal value: CZK 1,000,000  
 Coupon: floating in the amount of (6M PRIBOR + 0.09% p.a.) payable on a half-yearly basis, on 28 December and on 28 June every year  
 Issue date: 28 June 2002  
 Maturity date: 28 June 2005  
 Guarantee: Bonds are secured by the guarantee of the Czech Republic, as defined in Section 1 Article 3 of the Act on ČKA.

No pre-emption or exchange rights are attached to the bond.

The amendment of the issue terms and the Prospectus of the bond program have been approved based on the decision of Securities Commission Ref. No. 45/N/14/2001/5 from 24 June 2002.

**Issue ČKA 4,00/10 ISIN CZ0003700692**

Type: bond  
 Form: bearer  
 Format: book-entered  
 Issue value: CZK 5,000,000,000  
 Nominal value: CZK 100,000  
 Coupon: fixed in the amount 4.00% p.a., payable once a year on 5 November  
 Issue date: 5 November 2003  
 Maturity date: 5 November 2010



Guarantee: Bonds are secured by the guarantee of the Czech Republic, as defined in Section 1 Article 3 of the Act on ČKA.

No pre-emption or exchange rights are attached to the bond.

The amendment of the issue terms and the Prospectus of the bond program have been approved based on the decision of the Securities Commission Ref. No. 45/N/918/2003/2 from 7 October 2003.

### **III. Issue of bonds of Česká konsolidační agentura based on approved second issue programme of long-term and middle-term bonds established in March 2004.**

Issue ČKA 4,00/07 ISIN CZ0003700858

Type: bond

Form: bearer

Format: book-entered

Issue value: CZK 5,000,000,000

Nominal value: CZK 10,000

Coupon: fixed in the amount 4.00% p.a., payable once a year on 15 September

Issue date: 15 September 2004

Maturity date: 17 September 2007

Guarantee: Bonds are secured by the guarantee of the Czech Republic, as defined in Section 1 Article 3 of the Act on ČKA.

No pre-emption or exchange rights are attached to the bond.

The amendment of the issue terms and the Prospectus of the bond program have been approved based on the decision of the Securities Commission Ref. No. 45/N/1059/2004/2 from 9 July 2004.

### **IV. Issue of short-term bonds of Česká konsolidační agentura issued within the approved issue programme of short-term bonds**

At the beginning of year 2003, ČKA established an issue programme of short-term bonds which was approved by the means of a decision of the Securities Committee of 5 February 2003. The total face value of all issued and unpaid bonds within the programme must not at any moment exceed CZK 20 billion. The programme will exist until 31 December 2011 and any issue shall have the due period of 1 year maximum, 31 December 2011 at the latest. The inaugural issue of short-term bonds in the volume of CZK 5 billion and with the due period of 3 months within this programme was issued by ČKA in June 2003. The issue was repaid on 22 September 2003.

On 22 March 2004 through the System of short-term bonds, ČKA issued a so-called technical issue of short-term bonds in the volume of CZK 5 billion with a due period of 52 weeks from the date of the issue. The revenue on the issue was determined to amount to 12 M PRIBID,

announced on 11 a.m. on the auction date by the Czech national bank on the PRBO information system, Reuters - 2.20% p.a. ČKA purchased the given issue from the first acquirer into its own books. The issue has been used by the Agency for the purposes of liquidity management through REPO operations and SELL and BUY operations.

- On 21 April 2004, ČKA issued an issue of short-term bonds in the volume of CZK 5 billion with the due period of 13 weeks. The issue was repaid on 21 July 2004.
- On 3 June 2004, ČKA issued an issue of short-term bonds in the volume of CZK 4.907 billion with the due period of 13 weeks. The issue was repaid on 2 September 2004.
- On 21 July 2004, ČKA issued an issue of short-term bonds in the volume of CZK 5 billion with the due period of 13 weeks. The issue was repaid on 20 October 2004.
- On 2 September 2004, ČKA issued an issue of short-term bonds in the volume of CZK 5 billion with the due period of 13 weeks. The issue was repaid on 2 December 2004.
- On 20 December 2004, ČKA issued an issue of short-term bonds in the volume of CZK 5 billion with the due period of 13 weeks. The issue was repaid on 21 March 2005.

#### **Other transactions on interbank and capital markets**

In addition to the above, ČKA was engaged on the interbank and capital markets as a financial institution dealing in significant amounts through deposit transactions and FX transactions.

#### **Issue of bonds of state organisation Správa Železniční a Dopravní Cesty (Management of Railway and Transport Route)**

On 20 Feb. 2004, successful subscription of the long-term bonds issue of the state organisation Správa Železniční Dopravní Cesty was accomplished, for which ČKA was authorised to both arrange and subsequently place the issue in the capital market, in accordance with relevant resolutions of the Government, Board of Directors and Supervisory Board. The bonds were issued at the total face value of CZK 7 billion, with the annual coupon payout, on 3 March 2004. Their issue rate has been 99.988% and they bear a fixed interest rate of 4.60% p.a. The issue matures as at 3 March 2011.

## FINANCIAL INFORMATION

### Registered capital

KOB Praha, s.p.ú., being a state financial institution, issued no shares and has held CZK 5.95 billion of the registered (i.e. share) capital since 1994. This was established in accordance with the relevant Government resolutions through a transfer of share capital from the former federal Konsolidační banka, subsidies from NPF CR, the reserve fund of the bank, transfer from the allocated profit and from the incorporator's investment contribution. The share capital of KOB Praha, s.p.ú. at CZK 5.95 billion has been fully paid up. Relating to the transformation, ČKA assumed this capital from KOB Praha, s.p.ú. and the said amount remained unchanged as at 31 Dec. 2004.

### Development of the creation and structure of the registered capital of KOB/ČKA

Date	Capital Amount (CZK million)	Increase (CZK million)	
21 February 1991		10,00	Founder's contribution
31 December 1991	10,00		
		20,00	From profit 1991
		970,00	From reserve fund
		<b>990,00</b>	<b>Total</b>
31 December 1992	1 000,00		
		3 000,00	Bonds of National Property Fund
		414,01	Founder's contribution (tangible assets)
		585,99	From the bank's reserve fund
		<b>4 000,00</b>	<b>Total</b>
31 December 1993	5 000,00		
		950,00	From profit 1993
30. 6. 1994	5 950,00		

## Assets and the financial position

Česká konsolidační agentura has been managing the state assets entrusted to it under Act no. 239/2001 Coll., On Česká Konsolidační Agentura and certain amending acts, and also the state assets management powers over which it acquired in the course of performing its defined business or relating to it. In connection with this, ČKA has primarily been managing financial assets of banks, and assets assumed from commercial banks or companies in financial distress, mostly in the form of loans receivable and receivables for securities, and, in some cases, also in the form of real estate.

### Annual balance sheet

In 2004, the assets and liabilities decreased to 69% of the total recorded at the end of 2003, and the prior development of slowly increasing assets of ČKA came gradually to a halt, related to their prevailing settlement. From the above settlement, performed through collection of payments of principals, interest, penal charges and collection of selling prices at cession to the new acquirers, or, from payments received under bankruptcy proceedings, executions or sale of collateral, the Agency generated more than CZK 30 billion of cash collections each year over the last two years and reduced the level of outstanding balances of loan assets to CZK 135 billion of their face value as at 31 Dec. 2004. The achieved yield on selling prices of ceded receivables has been distinctly favourable in spite of their impaired quality, while the loss rate according to banking classification, is highly favourable and recorded on average more than 20% of their face value in 2004.

The most significant reduction of the loan portfolio was achieved from payments of loans and interest (CZK 22.3 billion), specifically from the subsidiaries Česká finanční, s.r.o., Konpo, s.r.o., and from SŽDC, KORADO, a.s., Český Mobil, a.s., as well as from the loans for cooperative housing development and Integrated Rescue, from ECK Generating, a.s., Osinek, a.s., and also from cession of receivables to new acquirers (CZK 6.1 billion) and write-offs of receivables (CZK 4.7 billion), mostly following a completed bankruptcy procedure.

The drop in the level of securities in 2004 was favourably impacted, particularly by the sales of ownership interests of CZK 4.3 billion and securities held for trading at the fair value of almost CZK 10 billion, performed with the Czech Government's consent. During the first 6 months of the year under review, ČKA sold bulky ownership interests in ČKD Praha Holding, a.s., MUZO, a.s., and Královopolská, a.s., and, in the close of 2004, finalised the hard to accomplish sale of ČKA's shareholding in ZVI a.s. Within the securities held for trading, mostly unit certificates of open-ended unit investment trusts with a fair value of CZK 8.3 billion were sold, through repurchases realised by the issuers (ČSOB fond stability, IKS Global konzervativní and ČSOB fond bohatství).

Out of the total of 16 real estate properties (at an acquisition cost of CZK 1.3 billion) that were transferred, based on the Agreement and state guarantee of 19 June 2000 and Agreement on the Restructuring Plan of 31 Aug. 2001, from ČSOB, a.s. to ČKA during 2001 to 2003, 6 premises at CZK 748 million of the book value were offered for use to state

organisations and state organisational branches. Another 9 real estate properties (at CZK 524 million of the book value) for which no use was found among the state organisations, were sold through voluntary public auctions or public tenders for the aggregate price of CZK 466 million. The residual property at CZK 26 million will be sold by mid-2007 at the latest.

Furthermore, based on the Czech Government Resolutions no. 302 of 26 March 2003 and no. 380 of 14 April 2003 and the task letter of the Ministry of Finance ref.no. 06/33520/2003 of 15 April 2003, a transfer without consideration was performed for the powers of management of the real estate properties within the complex premises of Hybernská 997,998/2,4, Praha 1, from the Ministry of the Interior to ČKA. The properties will be sold through a public auction as soon as the ownership relationships are clarified.

The training centre in Koloděje nad Lužnicí was identified on redundancy grounds for 2005 and offered for sale through voluntary public auction. It was successfully sold in May 2005.

The receivable from the state for the loss carry-forwards of ČKA was reduced by the payment of CZK 18.2 billion on account of the loss for 2002, received in 2004. The residual loss for 2002 and loss for 2003 will be redeemed gradually, in accordance with relevant provisions of Act no. 5/2005 Coll., On the Government Bond Programme, serving to partly cover the ČKA loss.

Due to the effects of the above transactions and related additions to, or use or release of the established provisions (valuation allowances), general provisions and the single-purpose reserve fund, the total assets and liabilities of the Agency as per Czech Accounting Standards dropped year-on-year by CZK 53.4 billion and amounted to CZK 121 billion as at 31 Dec. 2004.

The ČKA's financial position has been stabilised long-term and it was also developing in accordance with the financial plan in 2004. ČKA generated a sufficient liquidity level in 2004 from dunning and sale of assets, compensation received for losses and from the issue of its own bonds. It repaid a substantial portion of the payable loans, as a result of which it decreased the balance of liabilities to banks to CZK 49.2 billion as at 31 Dec. 2004. As part of this, the Agency repaid in particular the cost-demanding facilities and replaced them with more efficient resources, also including the issue of its own bonds.

ČKA was repaying all funds payable at relevant dates and amounts, completely and timely, and it ranks among the most trustworthy participants of the interbank and debenture markets as a contracting party involving no default risk in relation to its counterparties on the local financial market.

Compared to 2003, changes in the net book values of assets and liabilities achieved relevant materiality levels for the following balance sheet items in 2004:

#### **Assets**

The net book value of ČKA's receivables from clients, due to the described credit transactions, fell by CZK 21.2 billion and amounted to CZK 41 billion at the current year end.

The net book value, or, fair value of debt securities, shares, unit certificates and ownership interests got reduced in year-on-year terms, mainly due to sales, by CZK 7.1 billion, having amounted to CZK 11.2 billion as at 31 Dec. 2004.

Other asset balances at CZK 67.6 billion recorded at the current year end, out of which a prevailing proportion was the ČKA's receivable from the state of CZK 64.6 billion, were

recognised under loss carry-forwards. The receivable was reduced by CZK 18.2 billion during 2004, as a result of part payment of the asset by the Czech Ministry of Finance, on the dates as per the payment schedule.

## Liabilities

Liabilities to banks and clients dropped by CZK 41.8 billion as at 31 Dec. 2004 and totalled CZK 60.9 billion, mainly due to the scheduled reduction of assets of the interbank market and a change in the structure of funds designated for the Agency's refinancing.

Liabilities for bond issues of ČKA decreased by CZK 40.5 billion at the current year end as a result of the short-term issues' repayment, thus having dropped by CZK 3.1 billion year-on-year.

In 2004, with consent from the Ministry of Finance, ČKA's reserve funds were used to cover a portion of the its loss from 2003 amounting to CZK 12.2, and their balance closed at CZK 10.8 billion at the year end.

Other funds from profit, in particular capital funds, dropped to CZK 1.6 billion as at 31 Dec. 2004, as a result of the diminishing loss of the Agency.

## Profit (loss) for the period

In 2004, the Agency recorded a loss of CZK 3.4 billion. The loss for 2003 amounted to CZK 18.2 billion. The achieved diminished loss of the Agency over 2002-2004 in the region of dozens of billions of CZK, was favourably impacted by the limited assumption of new low-quality assets. Compared to the previous period, it helped to substantially reduce losses, particularly on additions to provisions (valuation allowances), as well as provisions for covering contingent losses on settlement of such assets, and losses on remeasurement of other low-quality assets that used to be massively assumed by the Agency following the relevant decisions of the Czech Government. Reduction of the recorded loss was further enhanced by the new strategy of business operation management, focused on minimising loss impacts, and reducing administrative and refinancing costs.

Reduction of the disclosed loss was more substantially reflected in the following items of profit (loss) generation:

The recorded interest income dropped and the interest margin reached a negative value of CZK (0.9 billion) resultant to the decrease in the balance of interest-bearing receivables and interest rates.

In 2004, the net financing income amounted to CZK 0.5 billion as no transaction of a similar size relating to the low-quality assets was accomplished during the year, while the most important portion within the structure of loss for 2003 was represented by the loss on financing operations totalling CZK (33.1 billion). This mostly consisted of the cost of remeasuring non-voting shares of the offshore structures assumed from ČSOB, a.s. Administrative costs, which amounted to CZK 0.8 billion in 2004, dropped by 7.9% as compared to 2003. The above reduction of costs is proof of the favourable growth tendency of ČKA's productivity and efficiency.

Other operating expenses that increased in 2003, specifically due to additions to provisions for the risk of loss on assumed receivables of health insurance companies from the overdue

premium payers, dropped to CZK 0.8 billion in 2004. This amount originated mainly from remeasurement of the underlying assets of the assumed offshore structures.

The loss on the transfer of ownership interests in subsidiaries and associated undertakings and also additions (or, release) of specific provisions (i.e. valuation allowances) for such ownership interests, amounted to CZK 0.3 billion in 2004. These resulted from additions to valuation allowances, and were eventually reduced by CZK 3.7 billion as compared to 2003, as a result of restricted transfers of major ownership interests to the Agency.

The costs of additions and release of valuation allowances, and provisions for receivables and guarantees were a prevailing reason of the reported loss for 2004. After discounting for the income on their release, they amounted to CZK 2.8 billion in 2004 as opposed to CZK 10.4 billion recorded in 2003.

A significant volume of the loss was also impacted by the cost of writing-off unpaid receivables following completed bankruptcy proceedings. In the recorded result, such costs have been either compensated by the use of valuation allowances and provisions or will be settled using the ČKA's reserve fund after the balance sheet date.

The total 2004 loss of CZK (3.4 billion) will be settled, within the extent of CZK 2.0 billion, using ČKA's single purpose reserve fund, designated to cover the expense and loss relating to receivables that were either written off or settled in other ways in 2004. The remaining loss of ČKA on other activities will be settled at CZK 0.1 billion through payments from the Czech National Property Fund (NPF CR) in accordance with the relevant agreements on coverage of costs and losses, while the loss portion of CZK 1.3 billion will be transferred to receivables from the state in accordance with the incorporator's position.

### **Information on the financial situation and achieved business results**

Financial situation of the Agency is, in the long term, stabilized through a system of the company's recapitalization ensured especially in the form of compensation for achieved losses, especially because of government guarantees. Also, it is in a significant way stabilized by the available volume of the special-purpose reserve fund, the volume of reserves and valuation allowances created in the past to cover risks of expected losses and, also by the scope of the achieved cash proceeds. The gradual decrease in value of some aggregate volume indicators is thus not caused by a lower level of business operation but by a gradual reduction of the portfolio of assets, which takes place according to the accepted project aiming to terminate the Agency's activity in the year 2007.

**Information about revenues - ČKA cash collection**

(CZK mil.)	2003	2004
Income from principals, interests and penalties including income from bankruptcy	14 483,1	14 688,6
Income from cession	5 131,1	1 113,0
Income from shares (property participations and other securities)	7 494,2	10 387,3
<b>ČKA income (excluding the income of subsidiaries and NPF)</b>	<b>27 108,4</b>	<b>26 188,9</b>
Income from subsidiaries, NPF and other	5 721,7	7 606,0
<b>TOTAL ČKA</b>	<b>32 830,1</b>	<b>33 794,9</b>

**Statement of changes in shareholders' equity in the last 3 years**

Since 1994, Konsolidační banka, s.p.ú., in liquidation which, as a government financial institution did not issue shares, has had available the volume of CZK 5.95 billion worth of share capital, generated in compliance with the appropriate Government Resolution by a transfer from the share capital of the legal predecessor, i.e. the federal Consolidation Bank, and also by subsidies from the National Property Fund CR, from KOB's reserve fund, by the transfer from the allocated profit and by means of the founder's deposit. KOB's share capital, amounting to CZK 5.95 billion, has thus been 100% repaid. Česká konsolidační agentura accepted this repayment in conjunction with the transformation, from Konsolidační banka Praha, s.p.ú. Due to the legal position of the Agency, which is governed by a special Act on ČKA, the share capital is not broken down into ownership interests or shares and similar securities.

Equity ČKA 2002-2004 (CZK mil.)	2002	2003	2004
Share capital paid up and recorded into Commercial Register	5,950	5,950	5,950
Reserve funds and other funds from profit	26,004	22,976	10,802
Capital funds	76,527	6,205	1,609
Revaluation reserve	-	90	4
Accumulated losses	-	-	-
Loss for the accounting period	(79 434)	(18 182)	(3 451)
<b>TOTAL</b>	<b>29 047</b>	<b>17 039</b>	<b>14 914</b>

**Changes in received loans**

In compliance with the actual strategy of refunding, the Agency created, in the year 2004, the required conditions, i.e. above all the sufficient liquidity on exacting and sale of assets and received compensation for losses, for the repayment of the significant volume in the amount in excess of CZK 45 billion of received loans from banks by which it decreased the balance of liabilities in respect of banks to CZK 49 billion as at 31 December 2004. Within this framework, it repaid especially cost-demanding facilities and replaced them with more efficient resources including those from the issues of its own bonds.



### Loan receivables

In the category of loan receivables, the Agency administers mostly low-quality loan receivables from banks or receivables from other institutions in adverse financial situations, which are accepted based on appropriate government decisions.

The Agency, within this framework, completed in 2004, in compliance with the decree of the Czech Government Resolution No. 1184+P of 19 November 2003, concerning the Project of cession of part of the receivables of health insurance companies in respect of the payers of overdue premium for public health insurance to Česká konsolidační agentura, the acceptance of receivables from health insurance companies in the total book amount of CZK 2.9 billion. In the year 2003, ČKA provided a prepayment amounting to CZK 2.1 billion for such acceptance.

Further, selected assets in the book amount of CZK 189 million were transferred to the Agency in the year 2004, based on a concluded Agreement on restructuring and a guarantee concerning the acceptance of loan risks on non-quality balance sheet and off-balance sheet assets of the ČS group. In compliance with a concluded Agreement on a guarantee concerning the guarantee for risk assets of KB, a.s., selected assets in the book amount of CZK 76 million were transferred to the Agency. In compliance with the valid agreement with ČSOB, loan receivables of two clients worth CZK 144 million were accepted.

The settlement of receivables took place mostly based on the payment of interest and repayment of principals. CZK 6.1 billion of the book amount of loss-making and difficult-to-collect receivables were assigned by the Agency to new acquirers for the selling price of CZK 1.5 billion, and CZK 4.7 billion of unpaid receivables, mostly with bad-debt maturity after terminated bankruptcies, were written off by the Agency.

The Agency's loan portfolio as at 31 December 2004, amounting to CZK 110.2 billion, includes CZK 97.2 billion of the book amount of impaired receivables, i.e. 88.3% of their total book amount, and among this CZK 50.5 billion of the book amount of receivables in respect of clients in bankruptcy.

**Aggregate amounts and time structure of overdue receivables at 31 Dec. 2004 (CZK '000)**

Time after maturity of receivable	Current	1 - 30 days	1 - 3 months (31 - 90 days)	3 to 6 months ( 91 - 180 days)	6 - 12 months (181 - 360 days)	Over 1 year (over 360 days)
<b>Total receivables from customers and other banks</b>	<b>( 22,968,174)</b>	<b>(32,359)</b>	<b>(119,009)</b>	<b>(473,322)</b>	<b>(2,862,806)</b>	<b>(84,243,652)</b>
<i>Receivables from customers assessed individually</i>	(22,437,734)	(32,359)	(119,009)	(473,322)	(2,862,806)	(84,243,652)
Standard loans and other receivables from clients	(4,132,345)	(312)	-	-	(12,150)	(8,447,849)
Watched loans and other receivables from clients	(606,254)	-	-	-	(742)	(10)
Non-standard loans and other receivables from clients	(12,626,482)	(816)	(13,125)	(57,866)	-	(91,345)
Doubtful loans and other receivables from clients	(1,248,391)	-	(30)	(128,591)	(85,580)	(47,364)
Loss loans and other receivables from clients.	(3,824,262)	(31,231)	(105,854)	(286,865)	(2,764,334)	(75,657,084)
<i>Receivables from clients assessed on a portfolio basis</i>	-	-	-	-	-	-
<i>Receivables from other banks</i>	(530,440)	-	-	-	-	-
Standard loans, deposits and other total receivables from banks	(530,440)	-	-	-	-	-
Watched loans and other receivables from banks	-	-	-	-	-	-
Non-standard loans and other receivables from banks	-	-	-	-	-	-
Doubtful loans and other receivables from banks	-	-	-	-	-	-
Loss loans and other receivables from banks	-	-	-	-	-	-

### Information about guarantees

The below mentioned guarantees, as at 31 December 2004, include off-balance sheet liabilities of ČKA arising from guarantees from agreements with clients of ČS Group CZK 410 million) and from guarantees based on a guarantor's statement due to the court settlement of Zetor, a.s. (CZK 37 million). It also includes off-balance sheet liabilities of ČKA from the guarantees of clients of the ex - IPB Group, which were transferred based on agreements for future agreements regarding the cession of receivables concluded with the Agency (CZK 60 million).

### Information about collaterals (CZK '000)

Recipient of collateral	As at 31 December 2002	As at 31 December 2003	As at 31 December 2004
CORFINA, a.s.	823,776.9	614,493.0	408,634.3
Česká spořitelna, a.s.	2,509,921.4	14,057.2	1,155.3
IPB REAL INVESTMENT, a.s.	67,250.0	67,250.0	-
KOMERČNÍ BANKA, a.s.	6,812,000.0	5,861,746.0	-
Kostelecké uzeniny a.s.	12,138.0	12,138.0	1,230.0
SETUZA a.s.	-	-	1,700.0
Tusculum a.s.	2,550.0	2,550.0	2,550.0
VIPAP VIDEM KRŠKO	90,565.7	90,229.4	54,516.0
Zetor, a.s.	36,684.8	36,684.8	36,684.8
<b>Total</b>	<b>10,354,886.8</b>	<b>6,699,148.3</b>	<b>506,470.4</b>

### Focus of the further development of activities and anticipated financial situation

In order to ensure the fulfilment of the determined deadline for the termination of ČKA through transparent processes, and to maximize, within the given time horizon, the utilization percentage of the administered portfolio of assets, the Agency developed specific strategies of their settlement for individual segments of the given portfolio of receivables, based primarily on the possibility of the efficient realization, such as their sale to a commercial institution, sale/transfer to another state institution, keeping them in ČKA and a later transfer to SPV, and, potentially, the discarding of their files and their write-off.

In order to ensure an appropriate reaction of the market to the block sale of receivables, the preference is given to the block sale of large blocks sold separately by subsidiaries and ČKA due to dominant volume of realisation. Within the above meaning, already in the year 2005, a sale of at least one block of receivables of the Konpo, s.r.o. subsidiary will take place and large blocks of receivables of ČKA and the Česká finanční s.r.o. subsidiary will be prepared to be sold. An indicative development anticipates a continuing linear course of individual settlement either by repayment or by sale. By the above methods, under the condition that

further assets will not be accepted into ČKA, the prevailing part of the available-for-sale portfolio of receivables should be resolved as early as the year 2006.

The investment portfolio of the Agency's assets includes a total of 182 security titles (shares, bills of exchange, investment certificates of share funds) and their business shares (limited liability companies and limited partnership companies), of which 115 titles of shares are of marginal values, and are transferred to ČKA for no consideration, as per the Decree of the Ministry of Finance No. 62/2001 Coll. concerning the management of state assets by organizational components of the state and state organizations from the Office for representation of the state in assets-related matters. With the exception of investment assets, the sale of which cannot be currently planned, because, for example, they have been encumbered by lawsuits or their sale is not in the exclusive competence of ČKA, the prevailing part of available-for-sale investment assets should be resolved as at the last day of 2006, according to existing assumptions.

The expectations raised from approved financial plan for the year 2005 basically respect legislative limitations of transfer of other low-quality assets into the Agency and the continuing realisation and sale of receivables. Both of the above facts will lead to a significant reduction of the balance total of assets. The planned business solutions and further measures included in the plan which aim at the maximum efficiency of the process of the settlement of receivables which was confirmed by the achieved results of 2004. This approach will be more closely interconnected in 2005 and will determine the development of business operations through synergy, which will mean a significant decrease in the achieved loss when compared with the elapsed year.

#### Selected indicators of financial plan of 2005 (CZK bln.)

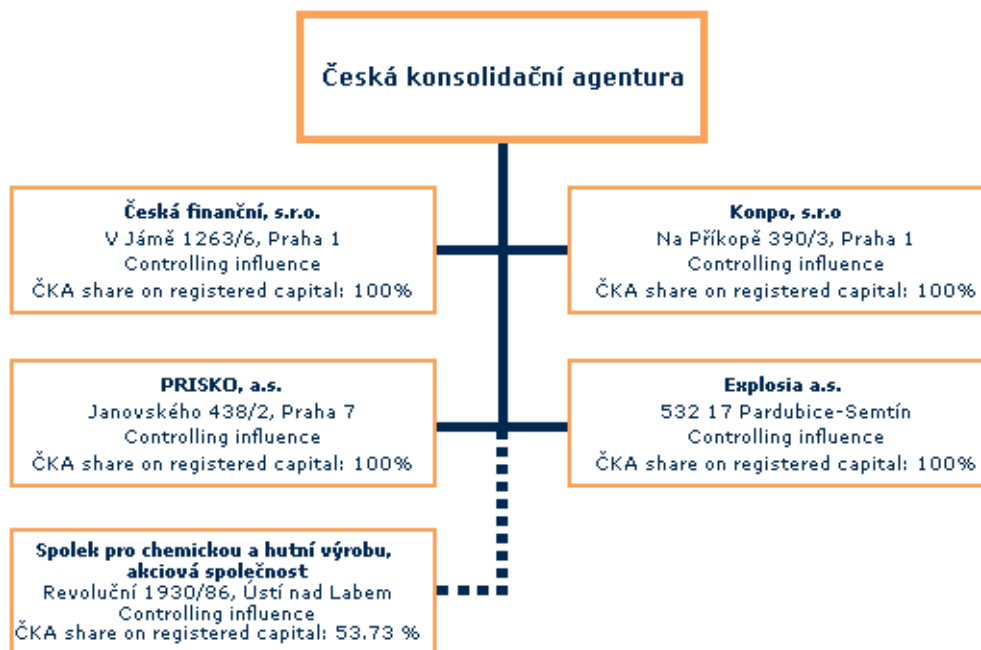
	2004	2005
Profit/(loss)	(3.4)	(1.7)
Balance sheet sum	121.2	65.0
Income (excluding income from subsidiaries)	26.2	16.5
Number of receivables	6,752	3,375
Utilization from book value of individual cession (%)	24.0	43.2

Also, the outlook of business operations through the termination of the Agency's activities a balanced financial management does not represent any risk of losses for investors.

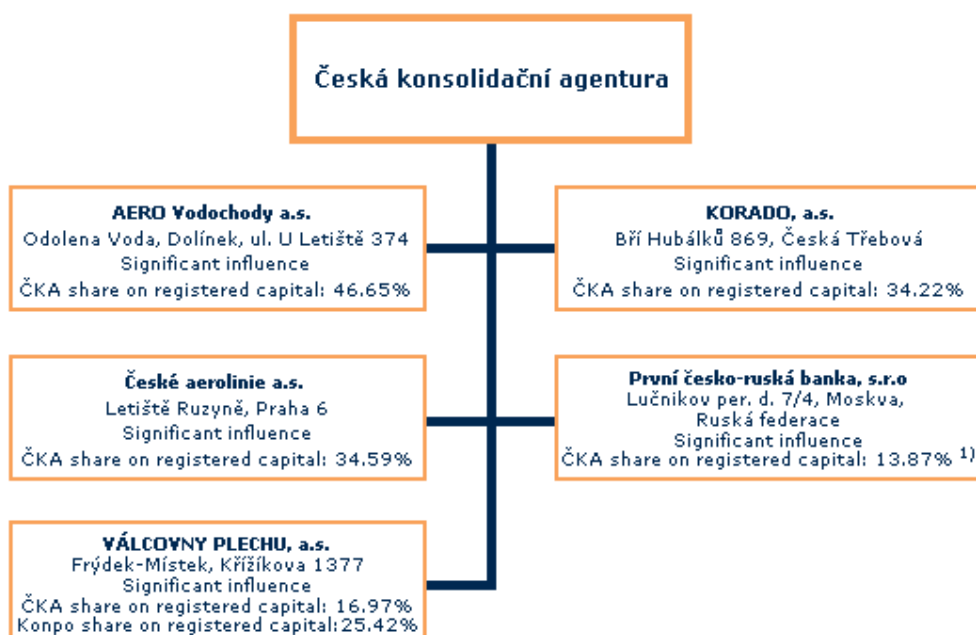
## CONSOLIDATED GROUP

Consolidated group in 2004 (as at 31 December 2004)

### Full consolidation method



### Equity consolidation method



1) PČRB is a subsidiary of the Agency through its managerial rights

## Information on the companies included in the consolidated group in 2004

The ČKA Group (hereinafter “the Group”) included six companies and employed 2,951 staff in total as at 31 December 2004. Česká konsolidační agentura is the parent company, and the companies consolidated using the full method include Česká finanční, s.r.o., Konpo, s.r.o., PRISKO a.s., Spolek pro chemickou a hutní výrobu, a.s. and Explosia a.s.

### Česká finanční, s.r.o.

Registered office:	V Jámě 1263/6, Praha 1, Postal Code 111 21
Company ID:	47450622
Ownership structure:	ČKA is the sole partner
Ownership interest acquired:	on 30 June 2000, purchase of a 100% shareholding from CNB in accordance with Czech Government Resolution no. 529 of 31 May 2000

### Statutory representatives

Ing. Antonín Šimek (General Manager)

Ing. Milan Blažek

Ing. Jiří Pivrnec

**Net profit (loss) as at 31 Dec. 2004: CZK (429,497,000)**

### Key business:

Česká finanční, s.r.o. performs asset management as its key business, i.e. of loans receivable, securities and ownership interests. It has assumed to strengthen the stability of the Czech banking sector which was approved by Czech Government Resolution no. 539 of 16 Oct. 1996 (hereinafter “the Stabilisation Programme”) and under the programme declared by the Czech National Bank (hereinafter “CNB”) in particular relating to mergers of smaller-size banks (hereinafter “the Consolidation Programme”).

### Stabilisation Programme

Under the Stabilisation Programme, Česká finanční purchased assets from the banks included in the Programme at their book values. Participation of separate banks was approved by CNB. The banks contractually undertook to repurchase any unrealised assets after 7 years (i.e. during 2004-2005). Separate banks issued either bank guarantees to Česká finanční, s.r.o. for the purpose, or rendered similar adequate security for their liabilities.

The accounting loss arising for Česká finanční from the implementation and operating expense attributable to the Stabilisation Programme were covered using the Agency funds, or those of NPF, based on the Agreement on Coverage of Cost and Loss Incurred by Česká finanční, s.r.o. of 15 Feb. 2001. This related to the performance of the Stabilisation Programme for the banking sector, concluded between Konsolidační banka and Česká finanční. The above payments were charged on an advanced basis, while no need of advance payments has arisen since 2003.

### **Consolidation Programme**

The Consolidation Programme is funded by CNB. Losses relating to the Consolidation Programme, that would exceed the share capital of Česká finanční, s.r.o. are covered using CNB funds based on the agreement signed between the parties on 29 June 2000 (“Agreement on Coverage of Cost of Operations and Loss on Assumed Assets, relating to performance of the Consolidation Programme”).

The Company closed with a negative result, i.e. loss of CZK (429 million) in 2004. The total assets and liabilities of the Company decreased year-on-year from CZK 12,371 million to CZK 7,441 million.

A new business strategy was introduced in 2004 that should enable efficient realisation of the asset portfolio. The strategic plan has been to offer blocks of receivables for cession in 2005 that would include most of the receivables registered under both the Consolidation and Stabilisation Programme. In 2004, a time schedule was prepared and adopted of separate stages of the strategic plan; the asset portfolio was segmented following detailed analyses and activities took place relating to administrative and legal preparation of the receivable blocks. The company is expected to enter (the) liquidation proceedings as of 1 January 2006.

### **Konpo, s.r.o.**

Registered office:	Na Příkopě 390/3, Praha 1, Postal Code 111 21
Company ID:	26149729
Ownership structure:	ČKA is the sole partner
Ownership interest acquired:	in March 2000, by purchase of a 100% shareholding from KB, a.s. in accordance with Czech Government Resolution no. 187/2000, on the proposed restructuring of KB, a.s. assets, relating to (the procedure of) its privatisation.

### **Statutory representatives**

Mgr. Miroslav Grunt (General Manager)

Ing. Vladimír Franc

Mgr. Andrzej Martynek

**Net profit (loss) as at 31 Dec. 2004: CZK (2,123,797,000)**

### **Key business:**

The mission of Konpo, s.r.o. is to minimise the adverse impacts on state expenditure with regard to the privatisation process of KB, a.s., relating to the purchase of CZK 60 billion worth of low-quality receivables. After assumption of the receivables from KB, a.s., key activities include their management, i.e. performance of acts related to the stabilisation of the receivable portfolio, restructuring debtors' receivables, performing financial analyses of assumed receivables, measuring receivables and real estate properties, and dunning receivables through administrative methods until resolved by their full repayment, assignment or through a court procedure. Realisation of assets is a separate activity.

The Konpo losses are covered by the Agency based on the Agreement on Coverage of Cost and Loss Incurred by Konpo relating to the restructuring of KB, a.s. assets performed in connection with the process of the bank's privatisation, entered into between Konsolidační banka and Konpo. Any losses are eventually covered by NPF CR and their settlement takes place through the Agency. For these reasons, Konpo, s.r.o. has been making additions to valuation allowances only for the increments to the managed assets resulting from the interest and late charges, and for declared bankruptcy proceedings beyond the date of the assets transfer from KB, a.s.

The measures adopted in 2003 and consisting of suspended sale of the receivable blocks and individual cessions of receivables, slowed the commenced trend of reduction of assets of the company portfolio in 2004. However, the resulting time space was fully utilised to complete segmentation of the managed receivable portfolio and to prepare for their sale in relation to the projected discontinued operation of Konpo, s.r.o. During 2004, mechanisms were set up enabling accelerated continuation of sales of the low-quality assets from the Company portfolio through block sales and individuals cessions of receivables.

The Company closed with a loss of CZK (2,124 million) in 2004. The total assets dropped year-on-year from CZK 14,638 million to CZK 11,988 million. The envisaged realisation of most of the assets during 2005 should be followed by the scheduled liquidation in 2006.

#### **PRISKO a.s.**

Registered office:	Janovského 438/2, Praha 7, Postal Code 170 06
Company ID:	46355901
Ownership structure:	ČKA is the sole shareholder
Ownership interest acquired:	in April 1996, by purchase of shares from NPF CR

#### **Board of Directors:**

Ing. Olga Mihalčíková - Chairwoman  
 Ing. Blanka Knyblová  
 Ing. Zdeněk Zahradník (Director since 1 Feb. 2005)

**Net profit (loss) as at 31 Dec. 2004: CZK 27,123,000**

#### **Key business:**

PRISKO a.s. is a special company, established in relation to the privatisation of the former state company ŠKODA Mladá Boleslav in 1992, at which time it assumed certain liabilities of the original company. These included a liability for defects in products manufactured by Škoda in the past, a solution to certain receivable relationships and asset-connected relationships (mostly real estate property) that the Czech party contributed to the newly privatised company - the current ŠKODA AUTO a.s.

An important requirement of the formation of PRISKO a.s., in accordance with the above privatisation project was the transparency of its activities under direct supervision of the



state-controlled entity, specifically in view of the necessity to ensure consistency with the Government-guaranteed agreements between the Czech and German parties at origination of the current ŠKODA AUTO a.s. Therefore, in 1996 KOB Praha, s.p.ú. acquired the full shareholding from NPF, in accordance with Czech Government Resolution no. 708 of 6 December 1995.

In 2004, solution of ownership relationships (titles of third parties and restitution claimants) continued as the key activity, specifically with respect of the real estate properties contributed by the Czech party into the privatised company. The Company's total assets and liabilities amounted to CZK 1,252 million and closed with a profit of CZK 27.1 million.

### **Spolek pro chemickou a hutní výrobu, akciová společnost**

Registered office: Revoluční 1930/86, Ústí nad Labem, Postal Code 400 32

Company ID: 00011789

Ownership structure:	Česká finanční, s.r.o.	53.73%
	Via Chem Group, a.s.	13.82%
	Midden Europese Beleggingsmaatschappij S.A.	6.00%
	Arca Capital Bohemia, a.s.	6.00%

Ownership interest acquired: The shares were transferred into ownership of Česká finanční, s.r.o. in 1997 from Foresbank, a.s. under the Consolidation (571,324 shares; 14.73%) and Stabilisation Programme (1,512,683 shares; 39%).

#### **Board of Directors:**

Ing. Martin Procházka - Chairman

Ing. Přemek Hlavnička

Ing. Josef Zbořil

Ing. Štěpán Pecka

Mgr. Jan Kubata

#### **Scope of business:**

The scope of business includes research, development, production and processing of chemical and biochemical products

**Net profit (loss) as at 31 Dec. 2004: CZK (183,995,000)**

#### **Key business:**

Spolek pro chemickou a hutní výrobu, akciová společnost (Consortium for chemical and metallurgical production, "Spolchemie") ranks among the core businesses operating in the chemical production sector of the Czech Republic. The product range is designated for a variety of manufacturers in other industrial sectors. Spolchemie production is classified under three core segments: production of inorganic chemicals, synthetic resins and organic dyes. Spolchemie is a dominant producer within the Czech Republic for numerous product categories and ranks among Europe's leading producers for many products. The long-term strategy of

Spolchemie includes a focus on global competitiveness of selected product lines. The short-term strategy focus includes restructuring, cost efficiency, improved sales, marketing and client services, as well as modernisation of selected technologies.

The Company's performance resulted in a loss of CZK (184 million) in 2004, which was impacted mainly by the consequences of the fire that damaged the synthetic resins operation in November 2002. The sales of production totalled CZK 2.75 billion, while the total assets and liabilities amounted to CZK 3.588 billion at the end of 2004. The key event of 2004 was the completion of construction of the new production plant for low-molecular epoxy resins and launching its operation in the final months of 2004.

### **Explosia a.s.**

Registered office:	532 17 Pardubice-Semtín
Company ID:	25291581
Shareholder structure at 31 Dec. 2004:	full ownership by Česká konsolidační agentura (100%)
Ownership interest acquired:	As of 29 Jan. 2004, 38.54% of the share capital was acquired through purchase of shares from ALIACHEM, a.s. As of 31 March 2004, 61.46% of the share capital was acquired through purchase of shares from STROJÍRNY TATRA PRAHA, a.s.

#### **Board of Directors:**

Ing. Petr Nosál - Chairman

Ing. Tomáš Prokop

Doc. Ing. Ladislav Lehký, CSc.

#### **Scope of business:**

The scope of business includes

- production of industrial and military explosives
- production of ammunition substances and final treatment of ammunition
- research and development to ensure long-term development of core production lines
- technical service necessary for customers, production and business

**Net profit (loss) as at 31 Dec. 2004: CZK 7,434,000**

#### **Key business:**

The key business of Explosia a.s., was carried out in the three following divisions in 2004:

- production of industrial explosives
- production of ammunition substances
- Research Institute of Industrial Chemistry.

An important element of the year included the gradual realisation of a major assignment for large calibre ammunition and the commencement of a partnership in the project of environmentally conscious liquidation of Czech Army ammunition.

**AERO Vodochody a.s.**

Registered office:	Odolena Voda, Dolínek, ul. U letiště č.p. 374, Postal Code: 25070		
Company ID:	00010545		
Shareholder structure k 31 Dec. 2004:	ČKA		46.66%
	LETKA, a.s.		53.30%
	AERO HOLDING a.s.		00.03%
	AERO Vodochody a.s.		00.01%
Ownership interest acquired:	16 Dec. 94, 0.02% of share capital (receivable capitalisation)		
	20 Oct. 97, 28.98% of share capital (receivable capitalisation)		
	21 Aug. 2003, 0.01% of share capital (from off shore ČSOB/IPB)		
	6 Oct. 2004, 17.65% (purchased from Boeing Česká, s.r.o.)		

**Board of Directors:**

Ing. Petr Klimeš - Chairman  
 Ing. Zdeněk Sýkora  
 Ing. Olga Svědínková  
 Ing. Jan Vachek  
 Ing. Jiří Fiala

**Scope of business:**

The scope of business includes development, production, testing, repairs, maintenance and modernisation of trainer and combat military aircrafts, aircraft parts and jigs.

**Net profit (loss) as at 31 Dec. 2004: CZK 294,689,000**

**Key business:**

AERO Vodochody a.s. is a traditional manufacturer of aeronautical technology of its own design. The core programme in 2003 consisted of production of the light subsonic fighter L159, of which supplies for the Czech Army commenced in 1999. The key cooperation programme included manufacture and assembly of the helicopter Sikorsky S-76C+. The project for production and development of the single-engine turbo-prop civil aircraft Ae 270 has been considerably delayed (the aircraft is expected to obtain certification in 2005).

Relating to the entry of AERO by the strategic partner Boeing in 1998 (Boeing acquired the shareholding of 35.29%) the Czech Government granted guarantees to AERO for loans and issued bonds up to USD 967 million. Prior to entry by the strategic partners, AERO had a negative equity of CZK 2.65 billion. The basis for generating the required profit levels and achieving positive equity and cash flows in order to repay the state-guaranteed liabilities, should have resulted from the sales of export versions of L159 aircrafts. However, over the period of AERO and Boeing's partnership, the original assumptions were not fulfilled which then resulted in AERO's incapacity to honour its financial liabilities resulting from the revolving loan used. It will also be unable to fulfil its financial liabilities under the bond issue.

In view of the above, the Czech Government decided by its Resolution no. 129 of 11 Feb. 2004, to cover the AERO aggregate liabilities of USD 440 million and, according to Resolution no. 973 of 6 Oct. 2004, the capital participation and strategic partnership of the Boeing

Company in AERO was terminated in October 2004 (ČKA acquired 17.65% shareholding). The Government has already settled the revolving loan AERO R/98 of USD 210 million in accordance with performance of the state guarantee.

While AERO closed with profit in the last three years (accumulated profit of more than CZK 2 billion), the equity amount remains negative at more than CZK (5 billion).

### České aerolinie a.s.

Registered office: Praha 6, Letiště Ruzyně, Postal Code: 160 08

Company ID: 45795908

Shareholder structure k 31

Dec. 2004:	FNM ČR + Nadační fond	56.43% + 0.49%
	ČKA	34.59%
	Česká pojišťovna, a.s.	4.33%
	Hlavní město Praha	2.94%
	Hlavní město Bratislava	0.98%
	FNM SR	0.24%

Ownership interest acquired: 1994, shareholding of 19.10% from Air France (16.32% following the subsequent increase and decrease of share capital)

1997, shareholding of 16.32% from EBRD

1999-2001, shareholding of 1.96% by exercising the pre-emptive right relating to the sale of shares by the original shareholders

#### Board of Directors:

Ing. Jaroslav Tvrdík - Chairman

RNDr. Kateřina Hobzová Chalupová - Vice-Chairwoman

JUDr. Jaroslav Švábík - Director

Ing. Peter Jusko - Director

Ing. Tomáš Heczko - Director

Ing. Jan Váňa - Director

#### Scope of business:

The scope of business includes the following key areas:

- commercial air service operation
- provision of services at the clearing process in the Praha-Ruzyně Airport, clearance of aircrafts on the operating area, clearance of passengers, cargo and mail
- provision of catering services for aircrafts (supplies of food and beverages)
- procurement of services in air transport

Net profit (loss) as at 31 Dec. 2004: CZK 324,168,000

#### Key business:

The ownership interest of ČKA in České aerolinie a.s., the leading Czech air carrier, was

acquired in accordance with the decision of the Czech Government, connected with the withdrawal of Air France from Československé aerolinie, a.s. in 1994. In that year, KOB Praha, s.p.ú. purchased a shareholding representing 19.10% of the company's share capital from Air France CS Participation S.A. Following an increase and subsequent decrease in the share capital of the company in 1995 serving to cover the loss brought forward, the share held by KOB Praha, s.p.ú. dropped to 16.32%. According to the agreement signed between KOB Praha, s.p.ú. and the European Bank for Reconstruction and Development in 1994, and the Czech Government decision, EBRD exercised a put option in September 1997, based on which KOB Praha, s.p.ú. purchased shares of České aerolinie a.s. representing another 16.32% of the share capital. Subsequently in 1999 and 2001, KOB Praha, s.p.ú. exercised its pre-emptive right relating to the sale of company shares by some of the original shareholders and acquired another 1.96% of the share capital. The current shareholding of ČKA in the share capital of the company is 34.59%.

In 2004, the Company commenced implementation of its strategy prepared for the period 2004-2014. The key tasks under the strategy included internal optimisation and external expansion. In the internal optimisation area new projects were triggered to improve efficiency of the Company's operation. The other area noted an aircraft fleet expansion, as well as network expansion through an increased number of destinations. A process was launched for the purchase of a new generation of medium distance airliners for the period 2007-2011.

#### **KORADO, a.s.**

Registered office:	Česká Třebová, Bří Hubálků 869, Postal Code: 560 02, District: Ústí nad Orlicí	
Company ID:	25255843	
Shareholder structure:	ČKA:	34.22%
	EBRD	29.14%
	F. Menclík	9.16%
	L. Petr	9.16%
	M. Vobora	9.16%
	Ing. B. Brabec	9.16%
Ownership interest acquired:	in 2000, relating to capitalisation of a part of KOB Praha, s.p.ú. receivables from KORADO, a.s.	

#### **Board of Directors:**

František Menclík - Chairman

Miroslav Vobora

Richard Howard Brook

Ing. František Hamáček

**Scope of business:**

The scope of business includes the following key areas:

- manufacture of central heating radiators
- manufacture, installation and repairs of air-handling equipment
- production and manufacture of plastics, including finishing technologies

**Net profit (loss) as at 31 Dec. 2004: CZK 360,502,000**

**Key business:**

KORADO, a.s., is one of the largest independent European manufacturers of steel radiators. In 1996, the company used a loan to implement an extensive capital expenditure programme, which has resulted in one of the most modern manufacturing plants within the industry.

KORADO, a.s. realises about a half of its sales in the Czech Republic and its market share (moves along) fluctuates around 55%. The company is a major exporter, and exports account for approximately 60% of its sales.

Since 1997, the European Bank for Reconstruction and Development has been a shareholder. In 2000, a certain proportion of receivables of KOB Praha, s.p.ú. from KORADO, a.s. was capitalised and in this way, KOB Praha, s.p.ú. gained its current stake in the share capital.

In July 2004, KORADO, a.s. repaid in full a core part of the ČKA receivables (CZK 1.5 billion) and the residual portion of the receivable was concurrently ceded to HVB Bank. Resultant to the above steps, ČKA is no longer a creditor of KORADO, a.s.

In 2004, KORADO, a.s. continued the previous trend of improved financial performance. The positive EBITDA generated by the Company in 2004 was almost 3.4 times higher compared with 2003. For the first time in the Company's history, subsidiaries contributed to the above result, as practically all of them closed with profit. The considerable profit was significantly enhanced by the (financing)financial operating result of CZK 240,709,000 related to the refinancing of the loan portfolio by ČKA.

**První česko-ruská banka, s.r.o.**

Registered office:	Novocheremushkinskaja 65, 117418 Moskva, Russian Federation	
Ownership structure:	STROJTRANSNAZ, v.o.s. (RF)	35.03%
	R. J. Popov (RF)	25.25%
	V. J. Lorenc (RF)	25.25%
	ČKA	13.87%

**Ownership interest acquired:**

On 28 August 2002, based on an agreement to transfer a shareholding between ČSOB, a.s and ČKA of 2 May 2002 and in accordance with the Agreement of Restructuring Plan signed between ČSOB, a.s., ČKA and the Czech Ministry of Finance, a shareholding in PČRB, s.r.o. - Moscow, at the nominal value of CZK 156.808 million was transferred to ČKA.

On 4 December 2003, based on a contract of the shareholding purchase, the shareholding of První Investiční Společnost, a.s. at the nominal value of CZK 4.264 million was transferred to ČKA in accordance with Government Resolution no. 1278/2002 of 16 December 2002.

ČKA also resolved its credit exposure towards PČRB in 2004. Prior to maturity, ČKA sold its promissory note based receivables from PČRB at USD 13.7 million back to PČRB, who paid less than the nominal value on early purchase grounds. ČKA used the funds of USD 10.7 million gained on the purchase to increase its shareholding in PČRB to the current 13.87%.

**Board of Directors:**

Popov Roman Jakubovich - Chairman for the Russian party  
 Arsenteva Olga Vasilievna - First Vice-Chairman (for the Russian party)  
 JUDr. Rovenský Dušan - Vice-Chairman for the Czech party  
 Oblezov Ilja Viktorovich- for the Russian party  
 Ing. Filippov Mikhail - for the Czech party

**Scope of business:**

Performance of activities as stipulated by the Russian Federation Act on Banks and Banking no. 395-1, as amended. The bank has been issued a licence authorising it to perform all banking transactions carried out both by legal entities and individuals, except for trading in precious metals.

**Net profit (loss) as at 31 Dec. 2004:** RUB 254,601,000

**Key business:**

The bank was established in Moscow in 1996, with its primary mission to provide service to the Czech and Russian trade and to joint-ventures. The bank has obtained a licence essentially authorising it to perform all banking transactions carried out both by legal entities and individuals. It currently holds the 28th position among Russian banks and its rating is Baa3 (Rus).

Following the transfer of the shareholding in PČRB from ČSOB to ČKA in August 2002, the strategic investor invested its capital into the bank in December 2002, who then increased the bank's share capital to the current RUB 3.2 billion (approx. USD 100 million) in June 2003. An

option has been contractually reserved for the Czech party to increase its shareholding up to 50% while maintaining its influence in the company bodies.

#### **VÁLCOVNY PLECHU, a.s.**

Registered office:	Frýdek-Místek, Křižíkova 1377, Postal Code 738 01
Company ID:	14613581
Shareholder structure:	Mittal Steel Ostrava a.s. 55.76%
	ČKA 16.97%
	Konpo, s.r.o. 25.42%
	Ostatní 1.85%

Ownership interest acquired: As of 16 May 2003 (receivable capitalisation)

#### **Board of Directors:**

Ing. Stanislav Konkolski - Chairman

Ing. Pavel Tomášek

Ing. Václav Žáček

#### **Scope of business:**

The scope of business includes the following key areas:

- metal sheet production
- coil production

**Net profit (loss) as at 31 Dec. 2004:** CZK 93,501,000

#### **Key business:**

Following the completed capitalisation of receivables of major creditors of Válcovny plechu, a.s. ("VP") in April 2003, redistribution of ownership interests was confirmed and Mittal Steel Ostrava a.s. asserted its majority position with its 55.755% shareholding. The procedure enabled VP to go on with its key business areas, which continued to include both cold and hot manufacture of sheets and coils.

In September 2004 the Czech Government decided to finalise restructuring of the Company, i.e. to sell all of the shares issued by VP and held by ČKA and Konpo, s.r.o., and on cession of receivables of the foregoing from VP to the sole acquirer Mittal Steel Ostrava a.s.

*For further details on the companies constituting the consolidated group, kindly see the Notes to the Consolidated Financial Statements of ČKA.*



## THE REPORT OF THE BOARD OF DIRECTORS ON THE BUSINESS ACTIVITIES OF THE COMPANY IN THE YEAR 2004 AND ON THE STATE OF ITS ASSETS

### Project 2007

The Czech Government Resolution No. 45 of 14 January 2004 called for the termination of ČKA's activities by the year 2007, significantly sooner than the originally-determined deadline. Pursuant to this, the Agency reassessed all the relevant aspects of the existing processes, collecting of receivables from the portfolio of assets in its balance sheet and it passed its "Project 2007", in order to ensure that the above deadline for the termination of activities and to achieve with the maximum transparency the highest possible utilization percentage of the settlement of the portfolio of receivables. As the dominant element of the project was selected, with the support of a renowned consultancy institution with international experience, the procedures for the optimization of business processes whose realization will allow to fulfil, in an available time horizon, all decisive milestones in the process of closing the institution. Also in order to assure optimization procedures, a new "slim" organizational structure was introduced, a new incentive system for material interest in selected results was accepted and the control was reinforced through a permanent audit of the processes for assigning receivables.

### Cession of receivables

In the year 2004, the Agency ceded 483 receivables in the book value of CZK 6.1 billion to new acquirers. The collected utilization percentage of the selling price amounting to CZK 1.5 billion thus amounted to 24.0% of the book value of the ceded receivables. In the recent history of cession these absolutely loss-making and nearly uncollectable receivables to new acquirers, the achieved result of 2004 exceeded the average annual utilization percentage of 2003 in the amount of 20.9% of the book value of the ceded receivables.

More than 50% of the book amount of the cession is comprised of more significant receivables in terms of volume in respect of the following clients: ČKD Dopravní systémy, a.s., TRUSTFIN a.s., LETOV, a.s. and ZVI a.s.

#### Utilization of receivables settled by cession against payment in 2004 (CZK mil.)

Number of receivables	Sale price <sup>x)</sup>	Utilization from real value		Utilization from nominal value		Utilization from book value		Profit/loss (-) from cession <sup>xx)</sup>
		%		%		%		
483	1,475.5	17.8	8,276.0	20.4	7,235.2	24.0	6,137.4	209.3

x) including insurance compensation from EGAP in the amount of CZK 362.5 mil. to ČKD Dopravní systémy receivables

xx) impact on P&L of 2004

## Cash proceeds

Out of CZK 33.8 billion of received collection for the year 2004, CZK 22.3 billion were comprised of received interest payments, sanctions and the repayment of principals, which exceeded the comparable level of these repayments and payments of the year 2003. The fact that the above collections are achieved out of the annually-decreased volume of the receivables portfolio is evidence that the efficiency of their collection has been increased and has been supported by the acceptance of a new business strategy.

### Cash collection in 2004 (CZK mil.)

repayments of principals interests and penalties	Sale price of receivables sold	from sale of securities	from subsidiaries	Total
14,688.6	1,113.0	10,387.3	7,606.0	33,794.9

## Balance sheet sum

For the Agency, as a “workout” institution, the notion of decreasing the balance amount in the next three years leading up to termination of its activities is a very relevant task. Thanks to the attention given to the procedures for reducing the volume of assets, their balance sum total as at 31 December 2004 managed to decrease to CZK 121 billion. The settlement of receivables in respect of clients, sales of shares, investment certificates and other interests, performed with the approval of the Czech Government, and the decrease of receivables in respect of unpaid losses of the Agency, have contributed substantially to the above decrease.

### Balance sheet sum development within 2002–2004 (CZK mil.)

Selected assets	2002	2003	2004
Due from customers - net	85,808	62,169	40,963
Shares, mutual shares and other interests	7,618	18,278	11,189
Other assets	152,961	94,011	68,870
of which: receivables from unsettled losses of ČKA	94,871	81,488	64,574
<b>Balance sheet sum</b>	<b>246,387</b>	<b>174,458</b>	<b>121,022</b>

The most important decrease in the loan portfolio was created by the repayment of loans and interest (CZK 22.3 billion), namely from subsidiaries Česká finanční, s.r.o., Konpo, s.r.o., but also by repayments from SŽDC, Korado, a.s. and Český Mobil, a.s., from the loans for co-operative construction of flats (DBV) and the Integrated protection system, from ECK Generating, a.s., Osinek, a.s. and further, through cession (CZK 6.1 billion) and writing off receivables (CZK 4.7 billion).

Above all, the decrease in the volume of securities in 2004 influenced the sale of ownership interests amounting to CZK 4.3 billion and securities available for sale in the fair value of almost CZK 10 billion. In the first half of the year, ČKA sold, e.g. interests in ČKD Praha Holding, a.s., MUZO, a.s. and Královopolská, a.s. In December ZVI a.s. was sold. In the group of securities available for sale, units of open end mutual funds were re-purchased in the fair

value of CZK 8.3 billion. Among the most important ones were ČSOB fond stability, IKS Global konzervativní and ČSOB fond bohatství.

## Finance

The achieved decrease of tens of billions of crowns a year in the Agency's losses was positively affected, most notably by the limited acceptance of further low-quality assets into the Agency. Losses ensuing from the creation of allowances were significantly decreased when compared with the previous period. Also, reserves were created to cover the risk of anticipated potential losses on the settlement of these assets and losses on revaluation of other low-quality assets accepted by the Agency, in compliance with appropriate decisions made by the Czech Government. The approach of the Agency's bodies has also had an important impact on the decrease in the reported losses. The bodies, following the new trend of the highest possible economy, approached the assessment of all operations by significantly stressing the minimization of loss impacts, enforcing a decrease in administration costs and approaching, with strong focus on economy, the assessment of operations related to the costs of refinancing. A significant reason for the 2004 reported losses is the cost related to creation of allowances, created to cover the risk of losses on the decreased value of collateral of receivables, and a deterioration of their classification or a decrease in the fair value of securities.

The Agency also puts together consolidated financial statements as it is a parent company of a financial group. The amount of assets, equity and the results of operations of ČKA is included in the appendix to the consolidated financial statements.

### Management trend in period 2002–2004 (CZK mil.)

Selected indicators affecting results	2002	2003	2004
Gains or losses from financial transactions	(952)	(33,098)	476
Administrative expense	(910)	(875)	(806)
Depreciation, additions and utilisation of allowances and provisions, losses from transfer of investments	(79,828)	16,408	(2,907)
<b>Loss for accounting period</b>	<b>(79,434)</b>	<b>(18,182)</b>	<b>(3,451)</b>

## Compensation for losses

In 2004 the Ministry of Finance compensated one part of the 2002 loss, amounting to CZK 18.2 billion, paid in three instalments. The remaining loss for 2002 and 2003 will be compensated gradually, in compliance with approved Act No. 5/2005 Coll. concerning the state bond programme for compensation of ČKA's loss. In 2005, CZK 28.2 billion of compensation is anticipated.

## Operational budget

The Agency's budgeted operational expenses show year-to-year decreases, positively affected by the achieved savings, especially in the areas of expenses of purchased services and wages and social costs.

**Operating budget for the period of 2002–2004 (CZK mil.)**

	2002	2003	2004
Budgeted administrative costs	771.0	715.3	705.1

**Personnel policy**

In the executive departments of the Agency, significant staff changes following the measures of "Project 2007" took place in the second half of 2004, with changes on several key positions, the transfer of some employees to other departments and the release of 85 employees without any compensation. The new model of the organisation at the Agency and its personnel arrangements have been proofed in practice, and deemed fully functional and efficient. This new model, together with the interconnection to the new incentive system and the system of periodic valuation, will be a reliable starting point for the personnel policy in the forthcoming periods.

Furthermore, the personnel activities have been focused on cooperation with educational institutions which specialize in expert employee training, including training of their language competency and managerial training. Increased attention has been given to preparing the Agency's employees for the period after its activities will be terminated, including their potential future activities and responsibilities.

**Number of employees in 2002–2004**

	2002	2003	2004
Average number of employees	568	538	467

**Conclusion**

Following the analysis and assessment of the above parameters, the ČKA Board of Directors assesses the achieved results as convincing and the business and financial plans of the year 2004 as achieved.

## REPORT BY THE SUPERVISORY BOARD

### Report by the Supervisory Board of ČKA for 2004



The Supervisory Board performed its tasks in 2004 in accordance with Act no. 239/2001 Coll., On Czech Consolidation Agency (Česká konsolidační agentura), Statutes of Česká konsolidační agentura and abided by the applicable internal guidelines of Česká konsolidační agentura.

As of 19 March 2003, Ing. Milan Urban resigned from his office in relation to his appointment to the Czech Government. The House of Delegates failed to elect a replacement by the end of 2003. The Supervisory Board discharged its tasks with the incomplete membership of eight members until 25 February 2004, when Ing. Miloslav Kala was elected into office by the House of Deputies.

During 2004, the Supervisory Board met at 28 meetings, discussed 452 items on its agenda and adopted 258 resolutions. The Chairman or Vice-Chairman of the Supervisory Board also participated in the Board of Directors meetings where needed, with an aim of reaching maximum consensus and the maximum level of efficient discussion possible. The benefits of this approach to discussion are documented by the fact that, in spite of the different political views and regional preferences of the Supervisory Board members, the Board adopted its resolutions unanimously or by a distinct majority as a rule, in close concert with the proposals presented by the Board of Directors.

The Supervisory Board is required by law to consider all financial and asset transactions of ČKA in excess of CZK 500 million. While such transactions were not numerous, they mainly involved the resolution of extremely challenging problems, not only in terms of the expensed finance but, even more importantly, in view of the fact that potential solutions had both a financial and significant social dimension and are therefore closely monitored by the media and public. The Supervisory Board consistently took care that all cessions of receivables were carried out through transparent tenders. In instances where such cession was performed according to Sect. 5(6), Act no. 239/2001 Coll., i.e. where, pursuant to a decision by the Government, ČKA is required to carry out a transaction which it would otherwise be prevented from performing on the prudence principle grounds because of the risks arising for ČKA from such transaction, the Agency took care to warn the Government about the fact prior to giving consent to the transaction and to accomplish such transactions based on a letter of order from the Minister of Finance of the Czech Government.

In 2004, personal reconstruction of the Board of Directors was successfully completed, as well as a review of internal guidelines of Česká konsolidační agentura in accordance with the results of a forensic audit and awards of the Supreme Audit Office. The Supervisory Board dealt closely with all core guidelines stipulating the Agency's operation and shared actively in their final wording. Based on these facts, the Czech Minister of Finance gave consent to the

preparation of further block sales without which the projected discontinuation of ČKA in 2007 would otherwise have been impossible.

The reconstructed Board of Directors prepared a set of procedures and processes called Project 2007 to serve the needs of the intended discontinuation of ČKA's operation in 2007. The key goal under the Project is to fulfil the Czech Government and Parliament resolution on discontinuation of the operation within a reduced term and the related necessity to accelerate and simplify processes, also including the enhanced motivation of ČKA employees. The Supervisory Board was concerned with the enhanced role of audit, improved transparency and legal perfection of the sales and with informing the public on each of ČKA's steps. It should be noted, that the Supervisory Board has been receiving full support in its above efforts from ČKA management from the start. Since the very beginning of its existence, the Supervisory Board took pains to speed up the sales as much as possible and is prepared to do all necessary within its powers to meet the 2007 deadline. These efforts are counteracted not only by delays beyond the control of the Supervisory Board (such as the now lifted suspension of block sales) but also by information suggesting that further receivable portfolios should be transferred to ČKA based on the Government decision.

The standard agenda of the Supervisory Board included consideration of the operating budget and investment plan of ČKA, monthly operating information on ČKA's performance and the performance of subsidiary companies and monitoring the liquidity developments, including discussion of optional solutions. The Supervisory Board has discussed the Annual Report for 2004 and the Report by Independent Auditors on the Consolidated Financial Statements for the year 2004 and has recommended them for final approval to the Czech Minister of Finance.

The Supervisory Board also co-operated with the Internal Audit Department at the scheduled reviews and at examination of external complaints. Separate review tasks assigned to the Internal Audit Department by the Supervisory Board were completed in accordance with the provisions of the ČKA Act, statutory and other internal standards of ČKA .



Ing. Vlastimil Tlustý, CSc  
Chairman, Supervisory Board of ČKA

## **PRINCIPLES OF COMPENSATING MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD AND COMPENSATIONS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD MEMBERS**

The managers of ČKA include the Chairman and Members of the Board of Directors of ČKA. The remuneration principles of ČKA managers follow from management contracts, the Remuneration Rules of Top Management issued based on the provisions of Article 7, Section 3, letter f) of Act No. 239/2001 Coll.; the Superior Collective Agreement between the Union of banks and insurance companies and the Trade Union of employees in the finance, banking and insurance sectors; from Act No. 1/1992 Coll., on Wages and Remuneration for Operating Emergency and Average Income (except for the provisions of Article 4, Section 5); the Labour Code, and other general legally binding regulations.

Managers' wages have been negotiated consisting of two parts, a basic wage component (basic monthly wage) and a flexible component (annual remuneration) which is linked to meeting the stipulated binding indicators. In the case that extraordinary results are achieved, an extraordinary remuneration may be paid. The managers were not provided with any income in the form of profit sharing, nor were they provided with any loans, borrowings, warranties or collateral relating to loans.

In accordance with internal standards, managers may be provided with non-monetary benefits in kind consisting of an allowance for meals (meal vouchers), training programmes, life insurance contributions, contributions to the pension scheme and to recreational activities. Managers have not been provided with company cars for private use.

During 2004, total financial income of ČKA managers amounted to CZK 33,192,404 (of which compensation of wages for former Members of the Board of Directors constituted CZK 9,793,955) and total benefits in kind of ČKA managers amounted to CZK 237,500. Total financial income received from entities controlled by ČKA in 2004 was CZK 2,179,567 and total benefits in kind received from entities controlled by ČKA in 2004 were CZK 24,995.

Members of the Supervisory Board, if they are not members of Parliament or the Senate, are entitled to remuneration for discharge of office as per the provision of Article 17 of Act No. 239/2001 Coll., of the Czech Consolidation Agency, as stipulated by the articles of the Agency. The amount of annual remuneration for Members of the Supervisory Board is defined in Article 13 of the ČKA Statutes. In the case that a Member of the Supervisory Board has not discharged his office for the whole calendar year, his remuneration is reduced proportionally. No right was raised by any Member of the Supervisory Board for a wage or any part of a wage, if they were not current employees of ČKA.

During 2004, the total financial income of Members of the Supervisory Board received from ČKA amounted to CZK 7,320,156, and total financial income received from entities controlled by ČKA amounted to CZK 632,903. No benefits in kind have been provided to Members of the Supervisory Board.

Information concerning managers' income is stated in gross amounts, i.e. prior to the relevant payments and deductions according to the specific legal regulations.

## PERSONS RESPONSIBLE FOR THE CONSOLIDATED ANNUAL REPORT

Persons responsible for the consolidated annual report are, on behalf of the issuer, Česká konsolidační agentura, with the registered office at Praha 7, Janovského 438/2, post code 170 06, ID No. 70109966, Ing. Petr Goldmann, member of the Board of Directors and the top director of ČKA, and Ing. Mojmír Hampl, MSc., Ph.D., member of the Board of Directors and the top director of ČKA. Both of the above persons are jointly responsible for the whole content of this report.

### Affidavit

The data set out in the consolidated annual report reflect the reality and no substantial circumstances which might affect the exact and correct assessment of the issuer and securities issued by him have been neglected or distorted.



Ing. Petr Goldmann



Ing. Mojmír Hampl, MSc., Ph.D.

On 29 April 2005



## **REPORT OF INDEPENDENT AUDITORS TO THE BOARD OF THE DIRECTORS AND SUPERVISORY BOARD OF ČESKÁ KONSOLIDAČNÍ AGENTURA**

We have audited the accompanying balance sheet of Česká konsolidační agentura as at 31 December 2004 (hereinafter referred to as “the Agency”), the related statements of income and changes in equity and notes for the year then ended (“the financial statements”). The financial statements and underlying accounting records are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

The accompanying financial statements are not intended to present the assets, liabilities, equity and the results of its operations and its changes in equity in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Czech Republic. Accordingly the accompanying balance sheet, the related statements of income and changes in equity and notes are not designed for those who are not informed about Czech accounting principles, procedures and practices.

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

In our opinion the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Agency as at 31 December 2004, and the results of its operations and its changes in equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

Without qualifying our opinion, we draw attention to Note 18 to the financial statements, which explains that the Konsolidační banka Praha, s. p. ú, the Agency’s legal predecessor, has received an official interpretation of the relevant accounting legislation by the Ministry of Finance (in its capacity as the body responsible for setting accounting standards in the Czech Republic), which was issued having regard to the State’s general guarantee to cover losses of the Agency. In accordance with this interpretation, the Agency has set aside within the statutory reserve fund, which forms part of the equity of the Agency, an amount of CZK 7,192 million to cover expected losses on certain specific loans and no provision has been separately reflected for these expected losses. This interpretation was reconfirmed to the Agency by the Ministry of Finance on 27 October 2003.

31 March 2005

*PricewaterhouseCoopers*

PricewaterhouseCoopers Audit, s.r.o.  
represented by



Paul Cunningham  
Partner



Petr Kříž  
Auditor, Licence No. 1140

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

BALANCE SHEET AS AT 31 DECEMBER 2004 - assets

Assets	Note	31 December 2004 CZK m	31 December 2003 CZK m
Cash and deposits with central banks	3	3	5
Due from banks	4	530	2,350
of which: a) repayable on demand		10	25
b) other receivables		520	2,325
Due from customers	5	40,963	62,169
of which: other receivables		40,963	62,169
Debt securities	6	515	1,520
of which: issued by other entities		515	1,520
Shares, mutual shares and other interests	6	5,578	11,793
Participation interests with significant influence	7	3,933	4,300
of which: in banks		305	161
Participation interests with controlling influence	7	1,163	665
Long-term intangible fixed assets	8	19	26
Long-term tangible fixed assets	8	672	791
of which: land and buildings for operating activities		519	542
Other assets	9	67,644	90,833
Prepayments and accrued income	10	2	6
<b>Total assets</b>		<b>121,022</b>	<b>174,458</b>

**BALANCE SHEET AS AT 31 DECEMBER 2004 - liabilities**

Liabilities	Note	31 December 2004 CZK m	31 December 2003 CZK m
Due to banks	12	49,263	94,637
of which: other payables		49,263	94,637
Due to customers	13	11,623	8,083
of which: a) repayable on demand		1,616	3,345
b) other receivables		10,007	4,738
Liabilities from debt securities	14	40,474	43,570
of which: issued debt securities		40,474	43,570
Other liabilities	16	2,116	7,011
Accruals and deferred income	17	46	115
Provisions	11	2,586	4,003
of which: other provisions		2,586	4,003
Share capital	18	5,950	5,950
of which: share capital paid up		5,950	5,950
Reserve funds and revenue reserves	18	10,802	22,976
of which: a) statutory reserve funds		10,800	22,974
b) other revenue reserves		2	2
Capital funds		1,609	6,205
Revaluation reserve	18	4	90
of which: revaluation differences on hedging derivatives		4	90
Loss for the accounting period		(3,451)	(18,182)
<b>Total liabilities</b>		<b>121,022</b>	<b>174,458</b>

OFF-BALANCE SHEET AS AT 31 DECEMBER 2004

Off-balance sheet assets:	Note	31 December 2004 CZK m	31 December 2003 CZK m
Commitments and guarantees given	19	507	7,139
of which: a) commitments		-	356
b) guarantees and collaterals		507	6,699
c) guarantees from bills of exchange		-	84
Receivables from spot transactions		9	21
Receivables from term instruments	28	10,000	11,345
of which: a) interest instruments		10,000	10,000
b) currency instruments		-	731
c) equity instruments		-	614
Receivables written-off	11	16,411	10,618
Assets in custody	19	613	1,308
of which: securities		613	1,308
<b>Total off-balance sheet assets</b>		<b>27,540</b>	<b>30,431</b>

Off-balance sheet liabilities:			
Commitments and guarantees received	19	54,878	59,720
of which: a) commitments		38,995	29,466
b) guarantees and collaterals		15,881	30,251
c) guarantees from bills of exchange		2	3
Collaterals received	5	3,964	7,361
of which: a) real estate pledges		3,888	7,019
b) cash pledges		-	5
c) securities pledges		-	43
d) other		76	294
Payables from spot transactions		9	22
Payables from term instruments	28	10,000	11,313
of which: a) interest instruments		10,000	10,000
b) currency instruments		-	699
c) equity instruments		-	614
Assets under custody	19	433	1,329
<b>Total off-balance sheet liabilities</b>		<b>69,284</b>	<b>79,745</b>

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 CZK m	2003 CZK m
Interest receivable and similar income	20	3,810	7,142
of which: interest income from debt securities		114	221
Interest payable and similar expense	21	(4,683)	(6,585)
of which: interest expense on debt securities		(1,508)	(1,773)
Income from shares and other interests	22	33	53
of which: a) income from participating interests		24	36
b) income from controlling interests		2	-
c) other income from shares and interests		7	17
Fee and commission income	25	23	462
Fee and commission expense	25	(38)	(64)
Gains or losses from financial transactions	23	476	(33,098)
Other operating income	25	1,476	1,024
Other operating expense	25	(835)	(2,649)
Administrative expense	24	(806)	(875)
of which: a) staff costs		(416)	(417)
of which: aa) wages and salaries		(313)	(311)
ab) social and health insurance		(103)	(106)
b) other administrative expenses		(390)	(458)
Depreciation, additions and utilisation of provisions for long term tangible and intangible fixed assets	8	(63)	(79)
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	25	5,827	11,609
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	25	(8,650)	(22,011)
Release of allowances for participations with significant and controlling influence	25	352	-
Loss from transfer of participating interest with significant and controlling influence	25	(338)	(4,087)
Additions and utilisation of other specific provisions	25	(35)	30,976
Loss on ordinary activities		(3,451)	(18,182)
<b>Loss for the year</b>		<b>(3,451)</b>	<b>(18,182)</b>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital CZK m	Reserve fund and other funds from profit CZK m	Capital reserves CZK m	Revaluation reserve CZK m	Accumulated losses CZK m	Loss for the period CZK m	Total equity CZK m
Balance as at 1 January 2003	5,950	26,004	76,527	-	-	(79,434)	29,047
Transfer of the loss for the year 2002 to accumulated losses	-	-	-	-	(79,434)	79,434	-
Covering 2002 loss from the Capital fund	-	-	(76,413)	-	76,413	-	-
Covering 2002 loss from the Reserve fund	-	(3,021)	-	-	3,021	-	-
No consideration acquisition of building and land on Hybernaska street	-	-	77	-	-	-	77
Revaluation differences on hedging derivatives	-	-	-	90	-	-	90
Drawings from Welfare fund	-	(7)	-	-	-	-	(7)
Loss for the year 2003	-	-	-	-	-	(18,182)	(18,182)
The claim for payments to cover 2003 loss - NPF, State	-	-	6,014	-	-	-	6,014
Balance as at 31 December 2003	5,950	22,976	6,205	90	-	(18,182)	17,039
Transfer of the loss for the year 2003 to accumulated losses	-	-	-	-	(18,182)	18,182	-
Covering 2003 loss from the Capital fund	-	-	(6,014)	-	6,014	-	-
Covering 2003 loss from the Reserve fund	-	(12,168)	-	-	12,168	-	-
No consideration acquisition of securities	-	-	3	-	-	-	3
Revaluation differences on hedging derivatives	-	-	-	(86)	-	-	(86)
Drawings from Welfare fund	-	(6)	-	-	-	-	(6)

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Loss for the year 2004	-	-	-	-	-	(3,451)	(3,451)
The claim for payments to cover 2004 loss - NPF, State (Note 9)	-	-	1,415	-	-	-	1,415
<b>Balance as at 31 December 2004</b>	<b>5,950</b>	<b>10,802</b>	<b>1,609</b>	<b>4</b>	<b>-</b>	<b>(3,451)</b>	<b>14,914</b>



## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 1 GENERAL INFORMATION

Česká konsolidační agentura (hereinafter “the Agency” or “ČKA”) was incorporated on 1 September 2001 in accordance with the Act No. 239/2001 on Česká konsolidační agentura as the legal successor of Konsolidační banka Praha, a State financial institution (hereinafter “the Bank”).

The main activities of the Agency are: administration and realization of non performing receivables accepted and purchased, as per the government’s decisions, from commercial banks and companies under difficult financial situations. Other activities of the Agency are restructuring programmes, the funding and supporting of projects, which are determined by a decision of the government.

The Agency retains a number of original activities of the Bank, however, it does not retain the status of a bank. In compliance with Art 1 para 3 of Act No. 239/2001 on Česká konsolidační agentura, liabilities of the Agency will be fully guaranteed by the State.

### 2 ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial statements, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting and the applicable accounting rules set by the Ministry of Finance of the Czech Republic (hereinafter “MF ČR”). The Agency is not a bank in accordance with the Banking Act and is therefore not regulated by Česká národní banka (hereinafter “ČNB”). The financial statements are prepared under the historical cost convention as modified by the revaluation of derivatives, financial instruments held for trading and available-for-sale to fair values.

The financial statements are rounded to millions of Czech Crowns (“CZK million” or “CZK m”) unless otherwise stated and are not consolidated. The Agency presents consolidated financial statements separately.

#### (b) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by ČNB effective at the balance sheet date. All resulting foreign exchange gains and losses from monetary items are recognised in Gains less losses from financial transactions.

### **(c) Fair value of securities**

The fair value of a security is determined as the market value quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share on the investee's equity for equities;
- the net asset value for mutual funds;
- the risk adjusted net present value for debt securities and notes.

### **(d) Trading securities**

Trading securities were either acquired for generating profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on trading securities is reported as interest income on securities.

### **(e) Available-for-sale securities**

Available-for-sale securities are neither trading securities nor securities held-to-maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management. Available-for-sale securities are measured in the same way as trading securities.

### **(f) Securities held-to-maturity**

Securities held-to-maturity are securities with fixed maturity where the Agency has both the intent and the ability to hold them to maturity.

They are measured at amortised cost.

### **(g) Transfers between portfolios**

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- trading securities cannot be transferred to other portfolios;
- on sale or transfer of any securities held-to-maturity, the Agency must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity within the two following accounting periods. Exceptions to this rule are allowed within the last three months before maturity or in the case of a significant deterioration in an issuer's creditworthiness.

#### **(h) Investments in subsidiary and associated undertakings**

A subsidiary is an enterprise that is controlled by the Agency, which means that the Agency has the power to govern the financial and operating policies so as to obtain benefits from its activities.

An associated undertaking is an enterprise where the Agency has significant influence, which is the power to participate in the financial and operating policy decisions, but not control.

Investments in subsidiary and associated undertakings are measured at the lower of cost and “at equity” value on an individual basis.

#### **(i) Securities financing arrangements**

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cashflows are recorded as Due to banks or customers and Due from banks or customers, as appropriate, on a settlement date.

Securities received in reverse repo agreements that are sold to third parties are recorded at fair value as a trading liability. Trading liabilities with debt and equity securities are included in Liabilities from debt securities and Other liabilities respectively.

#### **(j) Derivative financial instruments and hedging**

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps and other derivative financial instruments are initially recognised on balance sheet at cost and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash-flow models. All derivatives are presented in other assets or in other liabilities when their fair value is positive or negative respectively.

Embedded derivative financial instruments are not re-measured to fair value.

Changes in the fair value of derivatives held for trading are included in Gains less losses from financial transactions.

The Agency designates prospectively certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

- (i) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- (ii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;

- (iii) the hedge is effective on an ongoing basis;
- (iv) the hedged item is not a security classified as held for trading.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the hedging reserve in equity and transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### **(k) Interest income and expense**

Interest income and expense are recognised for all interest bearing instruments on an accrual basis using the effective interest method based on the acquisition cost. The straight-line method is used as an approximation for cash-flows maturing within 12 months from the balance sheet date. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

Income on non-performing receivables is also accrued and capitalised into the related loan balance. Such amounts are considered in estimating the provision for non-performing receivables.

### **(l) Penalty interest**

Penalty interest income is excluded from interest income until received. Amounts previously recognised as income are not reversed.

### **(m) Provisions and allowances**

Specific provisions are recognised when the Agency has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised in income.

Provisions are set aside in the currency, in which the settlement is expected to be made.

Allowances are deducted from the cost of each impaired asset. The amount of allowance for impaired loans and other assets is based on appraisals of these assets at the balance sheet date after taking into consideration the present forced sale value of collateral. The market in the Czech Republic for many collaterals is at an early stage of development and there is a low

level of liquidity for certain types of assets. As a result, the realisable value on foreclosure may differ from the value ascribed in estimating allowances.

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses, connected with the decrease of assets, in the income statement. Release of allowances in case they are no longer necessary is recognised in the income.

Allowances for assets denominated in foreign currency are created in foreign currency. Foreign exchange differences are recognised in the same way as foreign exchange differences from asset revaluation, to which they relate.

As the Agency does not need to follow ČNB rules, real estate collateral can be considered in estimating the amount of required specific allowances, even for receivables overdue more than 540 days. When creating specific allowances for loans for working capital finance (hereinafter “the old block of loans”), the partial coverage provided by the special-purpose reserve fund and general provisions is taken into consideration (Note 18).

<sup>1</sup> „The old block of loans” represents loans taken over by the Bank from commercial banks. The loans were granted by commercial banks prior to November 1989.

Under the Act on Česká konsolidační agentura the Board of Directors of the Agency has to realise certain operations according to strategic Government decisions, which would not necessarily be realised under normal commercial conditions for prudent business activities, for example in providing forms of State assistance. In these cases specific provisions or allowances are established in the same way when the above criteria are met. Assistance from the State in relation to these operations is recorded when it is virtually certain that economic benefits will flow to the Agency and the amount of assistance can be measured reliably.

## **(n) Long-term tangible and intangible fixed assets**

Long-term tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over the estimated useful lives resulting in the following annual rates:

Buildings and constructions	30 years
Machinery and equipment	4 years
Furniture and fittings	6 years
Motor vehicles	4 years
Software	4 years

Repair and maintenance expenditures are charged to expense as incurred. Expenditures enhancing the value of the asset are capitalised and depreciated.

**(o) Value added tax**

The Agency is registered for value added tax (hereinafter “VAT”). Fixed tangible assets, intangible assets and inventories are stated at cost excluding appropriate VAT. The Agency does not raise claims input VAT since the ratio of income subject to VAT is lower than 1 % of the total income of the Agency and it is not economical to claim 1% of VAT for the Agency. Input VAT incurred Sis expensed immediately.

**(p) Taxation**

The Agency’s income is exempted from corporate income tax and therefore, deferred tax and current tax payable are not accounted for.

**(q) Staff costs, pensions and social fund**

Staff costs are included in Administrative expense and they include also Board emoluments.

The Agency’s pension plans are voluntary and the Agency makes defined contributions to them in addition to statutory social security paid in accordance with the Act on Social Insurance. Contributions are charged directly to expenses.

Other social expenses are settled from the Welfare fund (“WF”), disclosed as Other funds. Social fund contributions are not charged to the income statement in accordance with Czech accounting rules and are presented within equity.

**(r) Related parties**

Related parties are defined as follows:

- Board members and management of the Agency;
- relatives (direct family members) of Board members and senior management of the Agency;
- entities, in which Board members of the Agency or senior management hold at least 10 % shareholding;
- subsidiaries and associated companies.

Significant transactions, balances and methods for the measurement of related party transactions are set out in Notes 5 and 13.

**(s) Subsequent events**

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions, which existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to preparation of the financial statements, which are indicative of conditions, which arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

### 3 CASH AND DEPOSITS WITH CENTRAL BANKS

	31 December 2004 CZK m	31 December 2003 CZK m
Cash on hand	3	5

### 4 DUE FROM BANKS

	31 December 2004 CZK m	31 December 2003 CZK m
Current accounts with banks	10	25
Term deposits with other banks	520	2,325
	<b>530</b>	<b>2,350</b>

### 5 DUE FROM CUSTOMERS

	31 December 2004 CZK m	31 December 2003 CZK m
Standard receivables from companies and individuals	2,019	5,391
Classified receivables from companies and individuals	95,409	115,310
Standard receivables from housing co-operatives <sup>1)</sup>	8,547	9,440
Classified receivables from housing co-operatives <sup>1)</sup>	13	30
Standard receivables from governmental entities	2,008	2,809
Classified receivables and other receivables from governmental entities	2,070	2,228
Standard receivables from municipalities	19	2
Classified receivables from municipalities	84	273
Other receivables from customers	-	2
	110,169	135,485
Allowance for classified receivables (Note 11) <sup>2)</sup>	(69,206)	(73,316)
	<b>40,963</b>	<b>62,169</b>

<sup>1)</sup> In its portfolio the Agency has loans granted to housing co-operatives. These loans were acquired from Investiční a Poštovní banka, a.s., (hereinafter "IPB"). The difference between the funding cost and interest

income is compensated by MF ČR.

<sup>2)</sup> In addition to the allowances for watch and impaired receivables the Agency has reflected a specific provision for receivables of CZK 2,176 million as at 31 December 2004 (31 December 2003: CZK 2,321 million) in liabilities as required by Czech accounting regulations (Note 11).

A statutory reserve fund is used to cover expected losses of CZK 7,192 million (31 December 2003: CZK 9,228 million) from the old block of loans. In 2004 the losses of CZK 2,036 million from assigned and written off exposures from the old block of loans were covered by the reserve fund (2003: CZK 12,168 million (Note 18)).

### (a) Quality of receivables portfolio

In accordance with the definitions issued by the CNB, the receivables due from customers portfolio can be analysed as follows:

		31 December 2004 CZK m	31 December 2003 CZK m
Standard		12,593	17,644
Watch		607	304
Impaired:	- substandard	12,790	21,489
	- doubtful	1,510	3,070
	- loss	82,669	92,978
		<b>110,169</b>	<b>135,485</b>

The forced sale value ascribed to assets received as collateral for receivables from customers can be analysed as follows:

	31 December 2004 CZK m	31 December 2003 CZK m
Cash	0	5
Securities	0	43
Land and buildings	3,888	7,019
Other fixed assets	76	294
	<b>3,964</b>	<b>7,361</b>

In addition to the above assets received as collateral, the Agency records guarantees received of CZK 15,881 million (31 December 2003: CZK 24,389 million).



**(b) Receivables from related parties**

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Subsidiary undertakings:</b>		
Loans to subsidiaries	15,217	22,840
Allowances for watch and impaired receivables	(3,326)	(4,522)
	<b>11,891</b>	<b>18,318</b>
<b>Associated undertakings:</b>		
Loans to associated parties	344	2,610
Allowances for impaired loans	(157)	(1,069)
	<b>187</b>	<b>1,541</b>
<b>Other related parties:</b>		
Board of Directors	-	-
Supervisory Board	-	-
Other members of management	-	-
<b>Total receivables from related parties</b>	<b>12,078</b>	<b>19,859</b>

All receivables from related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers. Based on certain Government decisions loans were also granted to selected companies in order to improve their financial position.

Loans to subsidiaries have been provided based on an assessment of the suitable loan structure of the ČKA Group. The interest rate on loans provided was on an arm's length basis. All risks associated with the loans provided to subsidiaries are covered by the NPF guarantee.

**6 SECURITIES AVAILABLE-FOR-SALE**

Debt securities including state treasury bills	31 December 2004 CZK m	31 December 2003 CZK m
Free market of recognised stock exchanges	0	1,011
Unquoted	515	509
	<b>515</b>	<b>1,520</b>

Shares, mutual shares and other interests		
Main or auxiliary market of recognised stock exchanges	130	166
Unquoted	5,448	11,627
	<b>5,578</b>	<b>11,793</b>

## 7 PARTICIPATION INTERESTS WITH SIGNIFICANT AND CONTROLLING INFLUENCE

### (a) Participation interests with controlling influence

At 31 December 2004

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Shareholding %
PRISKO a.s., Praha	-	795	795	100.00
Konpo, s.r.o., Praha	-	-	-	100.00
Česká finanční, s.r.o., Praha	-	-	-	100.00
IPB REAL INVESTMENT, a.s., Praha	-	50	50	100.00
Autoklub Bohemia Assistance, a.s., Praha	112	83	120	69.00
CRF Praha a.s. v likvidaci	-	434	434	100.00
První východní a.s., Praha	30	5	5	100.00
Global investment a.s., Praha	115	744	744	100.00
TCHECOMALT GROUP, a.s., Prostějov	-	399	400	99.93
ARTA REAL, k.s., Praha	1,630	2,900	2,900	100.00
CZ CREDIT REAL, k.s., Praha	1,032	2,900	2,900	100.00
IMOB a.s., Praha <sup>1)</sup>	-	-	2	11.36
Explosia a.s., Pardubice	469	1,165	1,165	100.00
BH CAPITAL, a.s., Prostějov	402	733	1,020	71.89
	<b>3,790</b>			
Allowance for impairment (Note 11)	(2,627)			
	<b>1,163</b>			

<sup>1)</sup> The company is a subsidiary of the Agency through its managerial rights.

At 31 December 2003

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Shareholding %
PRISKO a.s., Praha	-	795	795	100.00
ADEX, a.s., Tachov	-	352	385	91.28
Konpo, s.r.o., Praha	-	-	-	100.00
Česká finanční, s.r.o., Praha	-	-	-	100.00
VSM ČR akciová společnost, v likvidaci, Praha	-	1	1	100.00
IPB REAL INVESTMENT, a.s., Praha	-	50	50	100.00
Autoklub Bohemia Assistance, a.s., Praha	112	83	120	69.00
CRF Praha a.s. v likvidaci	-	434	434	100.00
KRÁLOVOPOLSKÁ, a.s., Brno	209	209	311	67.00
První východní a.s., Praha	30	5	5	100.00
TCHECOMALT GROUP, a.s., Prostějov	-	399	400	99.93
TRUSTFIN, a.s., Praha	-	251	251	100.00
ZVI a.s., Praha	-	228	228	100.00
ČKD PRAHA HOLDING, a.s. <sup>1)</sup>	3,867	3,867	8,145	47.47
UNIPLET Třebíč, a.s. <sup>1)</sup>	-	-	294	0.07
IMOB a.s., Praha <sup>1)</sup>	-	-	2	11.36
BH CAPITAL, a.s., Prostějov	402	733	1,020	71.89
	<b>4,620</b>			
Allowance for impairment (Note 11)	(3,955)			
	<b>665</b>			

<sup>1)</sup> Companies are subsidiaries of the Agency through its managerial rights.

## Summary financial information on companies under controlling influence

At 31 December 2004 and for the year ending 31 December 2004

Name	Net book amount CZK m	Equity CZK m	Total assets CZK m	Revenues CZK m	Profit/(loss) before tax CZK m
PRISKO a.s. <sup>1)</sup>	-	1,251	1,252	33	27
Konpo, s.r.o.	-	-	11,981	1,230	(2,117)
Česká finanční, s.r.o.	-	2,877	7,595	8,262	(429)
IPB REAL INVESTMENT, a.s.	-	(513)	307	18	(19)
Autoklub Bohemia Assistance, a.s.	67	94	235	1,009	24
CRF Praha a.s. v likvidaci <sup>2)</sup>	n/a	n/a	n/a	n/a	n/a
První východní a.s.	5	9	9	36	(27)
Global Investment a.s.	52	744	32	32	32
TCHECOMALT GROUP, a.s.	-	(1,033)	1,138	4,217	(237)
ARTA REAL, k.s.	49	167	182	303	120
CZ CREDIT REAL, k.s.	118	55	263	46	138
IMOB a.s. <sup>3)</sup>	-	47	52	53	34
Explosia a.s.	470	1,128	1,259	585	8
BH CAPITAL, a.s.	402	1,016	1,021	1,067	57
	<b>1,163</b>				

Note: Data has been drawn from the companies' preliminary unaudited financial statements as at 31 December 2004, unless stated otherwise.

<sup>1)</sup> PRISKO a.s. has potential liabilities from the settlement of assets and liabilities relating to privatization of Škoda Mladá Boleslav, which amounts are not quantifiable.

<sup>2)</sup> The company's financial statements were not available.

<sup>3)</sup> The company is a subsidiary of the Agency through its managerial rights.

At 31 December 2003 and for the year ending 31 December 2003

Name	Net book amount CZK m	Equity CZK m	Total assets CZK m	Revenues CZK m	Profit/(loss) before tax CZK m
PRISKO a.s. <sup>1)</sup>	-	1,224	1,225	50	43
ADEX, a.s. <sup>2)</sup>	-	-	-	-	-
Konpo, s.r.o.	-	-	14,638	2,002	(2,753)
Česká finanční, s.r.o.	-	2,937	12,371	6,380	2,178
VSM ČR akciová společnost, v likvidaci <sup>3)</sup>	n/a	n/a	n/a	n/a	n/a
IPB REAL INVESTMENT, a.s.	-	(493)	328	881	391
Autoklub Bohemia Assistance, a.s.	77	70	281	879	(39)
CRF Praha a.s. v likvidaci <sup>3)</sup>	n/a	n/a	n/a	n/a	n/a
KRÁLOVOPOLSKÁ, a.s.	24	411	673	2,205	2,167
První východní a.s.	30	36	96	7	-
TCHECOMALT GROUP, a.s.	-	(796)	1,576	39	(257)
TRUSTFIN, a.s.	-	(1,140)	306	176	(167)
ZVI, a.s.	-	(343)	353	94	(130)
ČKD PRAHA HOLDING, a.s.	132	267	305	252	69
UNIPLET Třebíč, a.s.	-	131	338	363	(111)
IMOB a.s.	-	31	39	53	218
BH CAPITAL, a.s.	402	959	965	1,895	47
	<b>665</b>				

Note: Data has been drawn from the companies' audited financial statements as at 31 December 2003.

<sup>1)</sup> PRISKO a.s. has potential liabilities from the settlement of assets and liabilities relating to privatization of Škoda Mladá Boleslav, which amounts are not quantifiable. The company also has a potential liability of CZK 181 million arising from a dispute with the company Motokov, a.s.

<sup>2)</sup> The company was deleted from the Commercial register on 30 April 2004.

<sup>3)</sup> The company's financial statements were not available.

**(b) Participation interests with significant influence**

**At 31 December 2004**

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Shareholding %
České aerolinie a.s., Praha	2,053	946	2,735	34.59
Výzkumný a zkušební letecký ústav, a.s., Praha	291	357	751	47.55
AERO Vodochody a.s., Odolena Voda	1,602	1,256	2,692	46.65
BRNO INN, a.s.	24	62	240	25.83
KORADO, a.s., Česká Třebová	86	288	841	34.22
GALILEO REAL, k.s., Praha	1,032	900	2,900	31.03
INTEGRA, a.s., Praha	32	171	839	20.41
Lesní společnost Hradec Králové, a.s.	38	143	679	21.13
Jihočeské lesy České Budějovice, a.s., Nové Hrady	38	255	700	36.36
Jihočeské papírny, Větřní, a.s.	94	176	452	38.89
VÁLCOVNY PLECHU, a.s., Frýdek-Místek	117	117	688	16.97
Českomor. lék. platebna, a.s., v likvidaci	-	17	60	28.58
Výzkumný ústav pivovarnický a sladovnický, a.s., Praha	8	23	69	32.93
První česko-ruská banka, s.r.o., Moskva <sup>1)</sup>	440	392	2,829	13.87
	<b>5,855</b>			
Allowance for impairment (Note 11)	(1,922)			
	<b>3,933</b>			

<sup>1)</sup> První česko-ruská banka, s.r.o. is an associated company of the Agency through its managerial rights.

At 31 December 2003

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Shareholding %
České aerolinie a.s., Praha	2,053	946	2,736	34.59
ARTA REAL, k.s., Praha	1,606	1,400	2,900	48.28
Výzkumný a zkušební letecký ústav, a.s., Praha	290	357	751	47.55
AERO Vodochody a.s., Odolena Voda	1,602	781	2,692	29.01
BRNO INN, a.s.	24	62	240	25.83
KORADO, a.s., Česká Třebová	86	288	841	34.22
CZ CREDIT REAL, k.s., Praha	1,032	900	2,900	31.03
GALILEO REAL, k.s., Praha	1,032	900	2,900	31.03
INTEGRA, a.s., Praha	32	171	839	20.41
Lesní společnost Hradec Králové, a.s.	38	144	679	21.13
MÚZO, a.s., Praha	274	21	102	20.86
Jihočeské lesy České Budějovice, a.s., Nové Hrady	38	255	700	36.36
Jihočeské papírny, a.s., Větřní	94	951	2,444	38.89
První česko-ruská banka, s.r.o., Moskva <sup>1)</sup>	233	161	2,916	5.52
VÁLCOVNY PLECHU, a.s., Frýdek-Místek	117	117	688	16.97
Investiční fond obchodu cest. ruchu a služeb, a.s., Praha	261	237	595	39.84
Výzkumný ústav pivovarnický a sladovnický, a.s., Praha	8	23	69	32.93
	<b>8,820</b>			
Allowance for impairment (Note 11)	(4,520)			
	<b>4,300</b>			

<sup>1)</sup> První česko-ruská banka, s.r.o. is an associated company of the Agency through its managerial rights.

## 8 LONG TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

### (a) Long term intangible fixed assets

	Software CZK m
<b>At 1 January 2003</b>	
Cost	275
Accumulated amortisation and impairment	(234)
<b>Net book amount</b>	<b>41</b>
<b>Year ended 31 December 2003</b>	
Opening net book amount	41
Additions	13
Amortisation charge	(28)
<b>Closing net book amount</b>	<b>26</b>
<b>At 31 December 2004</b>	
Cost	288
Accumulated amortisation and impairment	(262)
<b>Net book amount</b>	<b>26</b>
<b>Year ended 31 December 2004</b>	
Opening net book amount	26
Additions	4
Amortisation charge	(11)
<b>Closing net book amount</b>	<b>19</b>
<b>At 31 December 2004</b>	
Cost	290
Accumulated amortisation and impairment	(271)
<b>Net book amount</b>	<b>19</b>



**(b) Long term operating tangible fixed assets**

	Land CZK m	Buildings CZK m	Equipment CZK m	Other CZK m	Total CZK m
<b>At 1 January 2003</b>					
Cost	31	687	271	10	999
Accumulated depreciation and impairment	-	(152)	(213)	(6)	(371)
<b>Net book amount</b>	<b>31</b>	<b>535</b>	<b>58</b>	<b>4</b>	<b>628</b>

<b>Year ended 31 December 2003</b>					
Opening net book amount	31	535	58	4	628
Additions	-	-	10	-	10
Depreciation charge	-	(24)	(20)	(1)	(45)
<b>Closing net book amount</b>	<b>31</b>	<b>511</b>	<b>48</b>	<b>3</b>	<b>593</b>

<b>At 31 December 2003</b>					
Cost	31	687	272	10	1,000
Accumulated depreciation and impairment	-	(176)	(224)	(7)	(407)
<b>Net book amount</b>	<b>31</b>	<b>511</b>	<b>48</b>	<b>3</b>	<b>593</b>

<b>At 31 December 2004</b>					
Opening net book amount	31	511	48	3	593
Additions	-	1	4	1	6
Disposals	-	-	(1)	-	(1)
Depreciation charge	-	(24)	(18)	(1)	(43)
<b>Closing net book amount</b>	<b>31</b>	<b>488</b>	<b>33</b>	<b>3</b>	<b>555</b>

<b>At 31 December 2004</b>					
Cost	31	688	264	10	993
Accumulated depreciation and impairment	-	(200)	(231)	(7)	(438)
<b>Net book amount</b>	<b>31</b>	<b>488</b>	<b>33</b>	<b>3</b>	<b>555</b>

**(c) Long term non-operating fixed assets**

	Land CZK m	Buildings CZK m	Equipment CZK m	Other CZK m	Total CZK m
<b>At 1 January 2003</b>					
Cost	50	266	6	1	323
Accumulated depreciation and impairment	-	(9)	(6)	(1)	(16)
<b>Net book amount</b>	<b>50</b>	<b>257</b>	<b>-</b>	<b>-</b>	<b>307</b>

<b>Year ended 31 December 2003</b>					
Opening net book amount	50	257	-	-	307
Additions	19	217	-	-	236
Disposals	(1)	(167)	-	-	(168)
Depreciation charge	-	(177)	-	-	(177)
<b>Closing net book amount</b>	<b>68</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>198</b>

<b>At 31 December 2003</b>					
Cost	68	142	6	1	217
Accumulated depreciation and impairment	-	(12)	(6)	(1)	(19)
<b>Net book amount</b>	<b>68</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>198</b>

<b>Year ended 31 December 2004</b>					
Opening net book amount	68	130	-	-	198
Disposals	(23)	-	-	-	(23)
Impairment change	(5)	-	-	-	(5)
Depreciation charge	-	(53)	-	-	(53)
<b>Closing net book amount</b>	<b>40</b>	<b>77</b>	<b>-</b>	<b>-</b>	<b>117</b>

<b>At 31 December 2004</b>					
Cost	45	91	6	-	142
Accumulated depreciation and impairment	(5)	(14)	(6)	-	(25)
<b>Net book amount</b>	<b>40</b>	<b>77</b>	<b>-</b>	<b>-</b>	<b>117</b>

The Agency did not hold assets under finance lease contracts as at 31 December 2004 and at 31 December 2003.

Moveable fixed assets that were pledged to the Agency as collateral for granted loans, assets under charge as security over its liabilities or liabilities of third parties were not recognised as at 31 December 2004 and at 31 December 2003.

## 9 OTHER ASSETS

	31 December 2004 CZK m	31 December 2003 CZK m
Receivable from State due to loss of the Agency for the year 2002	58,031	76,264
Receivable from State due to loss of the Agency for the year 2003	5,224	5,224
Receivable from State due to loss of the Agency for the year 2004	1,319	-
<b>Receivables from State due to loss - total</b>	<b>64,574</b>	<b>81,488</b>
Receivable from NPF (Konpo - coverage of losses)	462	922
Receivable from ČF (based on current year profit)	448	4,838
Receivables from unsettled securities transactions	1,913	2,834
Operating advances granted	19	17
Settlement clearance accounts - debit balances	483	530
Advance for transfer of receivables from health insurance companies	-	2,062
Estimated receivables	13	12
Other receivables	63	9
Derivatives (Note 28 (c))	97	182
Inventories	1	1
	<b>68,073</b>	<b>92,895</b>
Allowances for impairment (Note 11)	(429)	(2,062)
	<b>67,644</b>	<b>90,833</b>

The reported loss of the Agency for the year 2004 of CZK 3,451 million should be covered by the Agency's reserve fund of CZK 2,036 million (Note 18), by MF ČR CZK 1,319 million and by the NPF CZK 96 million.

The reported loss of the Agency for the year 2003 of CZK 18,182 million was partly covered by the Agency's reserve fund of CZK 12,168 million (Note 18) and by the NPF CZK 790 million.

Due to the loss of the Agency incurred in 2003 and to the remaining part of the loss of the Agency of CZK 58,031 million incurred in 2002, the receivable from the State (MF ČR) of CZK 5,224 million will be settled by the proceeds from an issue of State bonds under the State bond programme for coverage of the Agency's loss.

Receivables from the State and the NPF for payment of losses do not bear interest and are not discounted to net present value because it is not possible to determine their maturity (Note 27).

## 10 PREPAYMENTS AND ACCRUED INCOME

	31 December 2004 CZK m	31 December 2003 CZK m
Prepayments	2	5
Accrued income	0	1
	2	6

## 11 ALLOWANCES PROVISIONS AND WRITE OFFS

The Agency had the following provisions and allowances for assets at risk:

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Provisions</b>		
Specific provisions for loans (Note 5)	2,176	2,321
Specific provisions for guarantees (Note 19)	410	778
Specific provision for "black" and "other" items transferred from ČSOB according to restructuring plan (Note 19)	-	20
Specific provision for transfer of receivables from health insurance companies (Note 19)	-	884
	<b>2,586</b>	<b>4,003</b>
<b>Allowances</b>		
Classified receivables to customers (Note 5)1)	69,206	73,316
Investments in subsidiaries and associates (Note 7)	4,549	8,475
Other assets (Note 9)	429	2,062
Land (Note 8 (c))	5	-
	<b>74,189</b>	<b>83,853</b>

<sup>1)</sup> Includes allowances for impaired loans provided to related parties (Note 5(b)).

The movements in provisions can be analysed as follows:

	Provisions for overdue receivables CZK m	General provisions for standard loans CZK m	Provisions for "ring fenced" asset guarantees - ČS CZK m	Provisions for "black" and "other" assets <sup>1)</sup> CZK m	Provision for offshore structures CZK m	Provisions for Nova Hut' a.s. bonds liabilities CZK m	Provision for transfer of receivables from health insurance companies <sup>1)</sup> CZK m	Total CZK m
1 January 2003	5,136	457	1,993	124	29,500	1,173	-	38,383
Creation	-	-	-	-	-	-	884	884
Release	(2,815)	(457)	(1,215)	(104)	(29,500)	(1,173)	-	(35,264)
31 December 2003	2,321	-	778	20	-	-	884	4,003
Creation	-	-	-	-	-	-	-	-
Release	(145)	-	(368)	(20)	-	-	(884)	(1,417)
31 December 2004	2,176	-	410	-	-	-	-	2,586

<sup>1)</sup> Receivables of Health insurances (Note 19) were transferred to the Agency and recorded in the balance sheet as at 31 December 2004. Provisions created for these assets have been released. These receivables are covered by allowances (Note 5).

On 1 March 2000 the Bank signed a restructuring and guarantee agreement relating to the transfer of the credit risk associated with the low-quality balance sheet and off balance sheet assets of Česká Spořitelna, a.s., and the companies CORFINA, a.s., CORFINA TRADE, s.r.o., and CF Danube Leasing, s.r.o., (hereinafter "ČS group"). During the year 2001 Česká spořitelna, a.s., exercised a put option with the Agency.

In 2004 selected assets from ČS group were transferred to the Agency amounting to CZK 189 million (2003: CZK 1,894 million) in accordance with the above agreement. The Agency has paid CZK 19 million (2003: CZK 56 million) as motivation fees for this transfer. The Agency created allowances for the transferred assets amounting to CZK 180 million (2003: CZK 304 million) which are included in allowances for impaired loans and released specific provisions for the same amount. Specific provisions for guarantees relating to other transfers expected from Česká spořitelna, a.s., amounted to CZK 410 million as at 31 December 2004 (31 December 2003: CZK 778 million).

Komerční banka, a.s., (hereinafter "KB") and the Bank concluded a guarantee agreement on 29 December 2000. The subject of the agreement was for the Agency to guarantee risk assets of KB up to a maximum amount of CZK 20 billion, valid until 31 December 2003.

During 2003 the Agency exercised its option to require KB to transfer selected assets to the Agency. In accordance with the guarantee agreement, selected assets amounting to CZK 76 million were transferred to the Agency in 2004. The Agency created allowances for the transferred assets of CZK 37 million, which are included in allowances for impaired loans.

Upon the final settlement of the guarantee agreement with KB, the Agency paid CZK 494 million to KB under guarantee and the same amount was subsequently paid to the Agency under the corresponding guarantee from the NPF.

The movements in allowances can be analysed as follows:

	Impaired loans to banks CZK m	Classified loans to customers CZK m	Investments in subsidiaries and associates CZK m	Land CZK m	Other assets CZK m	Total CZK m
At 1 January 2003	406	119,834	8,374	-	-	128,614
Additions	-	7,695	4,133	-	2,062	13,890
Usage	-	(42,639)	(4,032)	-	-	(46,671)
Release	(406)	(11,199)	-	-	-	(11,605)
Write backs <sup>1)</sup>	-	(375)	-	-	-	(375)
At 31 December 2003	-	73,316	8,475	-	2,062	83,853
Additions	-	7,088	338	5	429	7,860
Usage	-	(7,223)	(3,912)	-	-	(11,135)
Release	-	(3,731)	(352)	-	(2,062)	(6,145)
Write backs <sup>1)</sup>	-	(244)	-	-	-	(244)
At 31 December 2004	-	69,206	4,549	5	429	74,189

<sup>1)</sup> The written back allowances for classified loans of CZK 244 million for the year 2004 (2003: CZK 375 million) represent the difference between nominal and purchase cost of loans recorded as allowances when originated in accordance with the existing methodology.

#### Creation of allowances

The amount of allowances created is based upon the identified risk taking into consideration both the realisable value of collateral accepted and a special-purpose reserve fund (Note 18). Allowances are created against securities and investments on an individual basis.

#### Allowances to loans:

	Gross classified amounts receivable at 31 December 2004 CZK m	Quarterly average of gross classified amounts receivable from 1 January to 31 December 2004 CZK m	Allowances at 31 December 2004 CZK m
Watch	607	752	109
Substandard	12,790	14,481	126
Doubtful	1,510	2,564	444
Loss	82,669	88,125	68,527
<b>Total</b>	<b>97,576</b>		<b>69,206</b>

Write-offs and recovery of amounts written off previously

	2004		2003	
	Amounts written off CZK m	Recovery of amounts written off previously CZK m	Amounts written off CZK m	Recovery of amounts written off previously CZK m
State sector	1,895	-	224	-
Private clients	2,831	33	2,626	5
	4,726	33	2,850	5

Bad debts are written off against established provisions, allowances or directly expensed in the case that management of the Agency asserts their chance of recoverability as being remote.

## 12 DUE TO BANKS

	31 December 2004 CZK m	31 December 2003 CZK m
Due to central banks	8,752	9,674
Due to other banks	40,511	84,963
	49,263	94,637

## 13 DUE TO CUSTOMERS

	31 December 2004 CZK m	31 December 2003 CZK m
Amounts due to governmental entities	6,149	1,300
Amounts due to private customers	5,223	6,669
Other short term amounts due to private customers	251	114
	11,623	8,083

### Deposits from related parties

	31 December 2004 CZK m	31 December 2003 CZK m
Subsidiary undertakings	2,147	2,897
Associated undertakings	-	2
	2,147	2,899

Management of the Agency considers that deposits from related parties were accepted under substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal interest rate and liquidity risk or present other unfavourable features.

## 14 LIABILITIES FROM DEBT SECURITIES

	31 December 2004 CZK m	31 December 2003 CZK m
Valued at amortised cost:		
Debt securities issued	30,254	32,718
Less: Own debt securities held	(200)	(200)
Own T-bills issued	4,972	4,977
Promissory notes and bills of exchange	5,448	6,075
	<b>40,474</b>	<b>43,570</b>

As at 31 December 2004, the Agency had outstanding short-term debt securities issued (deposit bills) redeemable within one year of CZK 426 million (31 December 2003: CZK 1,318 million) and T-bills issued redeemable within one year of CZK 4,972 million.

Debt securities issued comprise:

Issue	Notional amount CZK m	Maturity	Interest rate
3.	5,000	17 March 2005	6-month PRIBOR + 0.125% p.a.
4.	5,000	10 June 2007	5.05% p.a.
5.	10,000	28 June 2005	6-month PRIBOR + 0.09% p.a.
6.	5,000	5 November 2010	4.00% p.a.
7.	5,000	17 September 2007	4.00% p.a.
	<b>30,000</b>		

## 15 SUBORDINATED LIABILITIES

The Agency had no subordinated debt as at 31 December 2004 or as at 31 December 2003.



## 16 OTHER LIABILITIES

	31 December 2004 CZK m	31 December 2003 CZK m
Payable to NPF due to ČF profit	448	4,838
Payables to subsidiaries for the settlement of losses	462	922
Estimated payables	923	939
Derivative financial instruments (Note (28 (c)))	135	121
Social institutions clearance account	7	9
Miscellaneous payables	141	182
	<b>2,116</b>	<b>7,011</b>

The Agency records a receivable (liability) from the NPF and a liability (receivable) to a subsidiary (Notes 9 and 16) in accordance with the agreements concluded with the NPF on covering expenses and losses of subsidiaries. This transaction has no impact on the results of the Agency.

Other liabilities as at 31 December 2004 and as at 31 December 2003 do not include any overdue liabilities for social insurance, contribution to the state employment policy or liabilities for health insurance.

## 17 ACCRUALS AND DEFERRED INCOME

	31 December 2004 CZK m	31 December 2003 CZK m
Accruals	45	65
Deferred income	1	50
	<b>46</b>	<b>115</b>

## 18 EQUITY AND PROFIT DISTRIBUTION

### Share capital

	31 December 2004 CZK m	31 December 2003 CZK m
Issued and paid	5,950	5,950

Czech law requires that the State guarantees the Agency's liabilities and thus pays losses incurred by the Agency. The claim for settling the loss of the current period is recorded as a

receivable from the State against the Capital fund and consequently total assets are increased. The settlement of the loss from the Capital fund is recorded in the following accounting period.

The Bank that was the legal predecessor of the Agency, received an official interpretation of the relevant accounting legislation from the MF ČR (in its capacity as the body responsible for setting accounting standards in the Czech Republic), which was issued having regard to the State's general guarantee to cover losses of the Agency. In accordance with this interpretation, the Agency has set aside, within the statutory reserve fund that forms part of the equity of the Agency an amount of CZK 7,192 million (31 December 2003: CZK 9,228 million) to cover expected losses on certain specific loans and no allowances have been separately reflected for these expected losses. This reserve fund was contributed by the NPF. This interpretation was reconfirmed to the Agency by the Ministry of Finance on 27 October 2003. The Agency released an amount of CZK 2,036 million to cover losses related to the old block of loans (in the year 2003: CZK 12,168 million). The disclosed loss from the old block loans (Note 2(m)) for the period will be covered by the released part of the reserve fund.

#### **Revaluation reserve**

Fair value of the cash flow hedging instruments is deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income (Note 28(c)).

## 19 CONTINGENCIES AND COMMITMENTS

Contingent assets and liabilities include:

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Guarantees granted on behalf of:</b>		
ČS group clients	410	628
KB clients	-	5 862
Other clients	97	209
<b>Total guarantees granted</b>	<b>507</b>	<b>6,699</b>
Provisions for guarantees granted (Note 11)	(410)	(778)
<b>Net value of guarantees granted</b>	<b>97</b>	<b>5,921</b>
Co-acceptances given	-	84
Irrevocable loan commitments made	-	356
<b>Commitments on the cession of assets</b>		
ČSOB "black" assets from IPB Restructuring Plan	-	20
Health insurance companies' receivables	-	2,946
Specific provisions to ČSOB assets from IPB Restructuring Plan	-	(20)
Specific provisions to ceded receivables from health insurance companies	-	(884)
	-	2,062
<b>Guarantees received</b>		
From the State	2,066	4,254
From NPF	13,664	25,789
From other entities	151	208
	<b>15,881</b>	<b>30,251</b>
Irrevocable loan commitments accepted	<b>38,995</b>	<b>29,466</b>
	31 December 2004 CZK m	31 December 2003 CZK m
<b>Assets placed in custody</b>		
Shares	458	1,225
<b>Assets in safe</b>		
Shares	155	83
<b>Assets placed under custody</b>		
Other	433	1,329

## 20 INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 CZK m	2003 CZK m
Interest on inter-bank transactions	58	706
Interest on receivables from customers and state	3,638	6,215
Interest and discount on debt securities	114	221
	<b>3,810</b>	<b>7,142</b>

An estimated amount of CZK 2,663 million representing income on classified receivables was included in 2004 (for the year 2003: CZK 1,852 million). Overdue penalty interest of CZK 21,282 million for impaired receivables as at 31 December 2004 (as at 31 December 2003: CZK 18,766 million) was not recorded in revenues. The penalty interest is legally enforceable and has not been forgiven.

Based on the Supreme Court decision from 24 March 2004, sp. Zn. 35 Odo 101/2002 penalty interest on overdue interest cannot be accounted for unless there is a contractual agreement between a creditor and a debtor establishing that the overdue interest is capitalised to principal. This ruling is contrary to a previous Supreme Court decision on this matter. The legal interpretation (eg. from when this ruling should be applied amongst other issues) of the impact of this ruling is still being considered by the Agency and banking sector. Therefore the Agency has continued to account for penalty interest on overdue interest for the year ended 31 December 2004. It is possible that the legal interpretation of the above decision, when available, would require adjustments resulting from this ruling, which could be applied retrospectively. However, the management of the Agency does not expect material impact on the equity at 31 December 2004 or the results for the period then ended.

## 21 INTEREST PAYABLE AND SIMILAR EXPENSE

	2004 CZK m	2003 CZK m
Interest on inter-bank transactions	2,990	4,441
Interest on deposits from customers and state	185	371
Interest and discount on debt securities issued	1,508	1,773
	<b>4,683</b>	<b>6,585</b>

## 22 INCOME FROM SHARES AND OTHER INTERESTS

	2004 CZK m	2003 CZK m
Income from associated undertakings	24	36
Income from subsidiary undertakings	2	-
Income from shares and other interests	7	17
	<b>33</b>	<b>53</b>

## 23 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

	2004 CZK m	2003 CZK m
Gains less losses from securities transaction	241	(33,107)
Gains less losses from foreign currency transactions	(177)	(252)
Gains less losses from trading derivatives	(1)	156
Gains less losses from other transactions	413	105
	<b>476</b>	<b>(33,098)</b>

The Bank signed restructuring and guarantee agreements with ČS Group (Note 11) relating to the transfer of the credit risk associated with low-quality balance sheet and off balance sheet assets.

A so called “motivation fee” is paid based on the contract. The motivation fee is calculated as 12% of proceeds from interest and fees received by ČS Group from clients from loans under the above mentioned guarantee before their transfer to the Agency and 12% from the proceeds from loan principal received by ČS Group before their transfer to the Agency. The first part of the motivation fee is paid by the Agency quarterly the second part is paid at the date of transfer. This motivation fee in 2004 of CZK nil (2003: CZK 57 million) is expensed and included in the Gains less losses from other transactions.

The Agency has to pay an “interest fee” in accordance with the above mentioned agreement for the management of the assets under the Agency’s guarantee. This interest fee in 2004 of CZK 91 thousand (2003: CZK 34 million) is included in the Gains less losses from other transactions stated above and it is paid by the Agency quarterly.

The motivation and interest fee are not capitalised because they do not meet the criteria to be recorded as assets as they do not bring any future benefits to the Agency.

## 24 ADMINISTRATIVE EXPENSES

	2004 CZK m	2003 CZK m
Rent and lease charges	8	6
Staff costs	416	417
Audit, tax and legal advisory services	75	121
of which paid to Auditor:		
- audit	5	n/a
- tax advisory	-	n/a
- other advisory	2	n/a
Other administration expenses	307	331
	<b>806</b>	<b>875</b>

Staff costs can be analysed as follows:

	2004 CZK m	2003 CZK m
Salaries and emoluments	306	305
Social security and other social costs	103	106
Emoluments of Supervisory Board	7	6
	<b>416</b>	<b>417</b>

Emoluments of Board of Directors of CZK 33 million (2003: CZK 24 million) are included in salaries and emoluments. The Board remuneration for 2004 of CZK 33 million includes compensation payments totalling CZK 10 million, which were paid to former Board members in 2004.

### Staff statistics

	2004	2003
Average number of employees	467	538
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	9	8

## 25 OTHER INCOME AND EXPENSES

	2004 CZK m	2003 CZK m
<b>Other income</b>		
Fee and commission income	23	462
Other operating income	1,476	1,024
Release of allowances and provisions for receivables from customers and guarantees, income from receivables already written-off	5,827	11,609
Release of allowances to investments in subsidiary and associated undertakings	352	-
	<b>7,678</b>	<b>13,095</b>
<b>Other expenses</b>		
Fee and commission expense	38	64
Other operating expense	835	2,649
Depreciation of tangible and intangible fixed assets	63	79
Addition to allowances and provisions for receivables from customers and guarantees, write-offs of receivables, expenses from ceded receivables	17,325	68,938
Usage of allowances and provisions for receivables from customers and guarantees	8,675	46,927
Loss from the transfer of investments in subsidiary and associated undertakings and addition to allowances to investments in subsidiary and associated undertakings	4,250	8,119
Usage of allowances to investments in subsidiary and associated undertakings	3,912	4,032
Addition to other provisions	57	-
Usage of other provisions	22	30,976
	<b>35,177</b>	<b>161,784</b>

## 26 FINANCIAL RISKS

### (a) Strategy in using financial instruments

Based on the Agency's specific status, its financial risk management function focuses on developing procedures, establishing methods and setting limits, and monitoring the Agency's adherence to the policies.

Furthermore regular reports connected to financial risk management are prepared for the Board of Directors and other advisory bodies of the Board of Directors. The control over financial risk management is reviewed by internal audit.

### (b) Credit risk

The Agency's credit risk management policy is based on the Agency's internal rating system, one of the two methodologies recommended by the Basel Committee for bank supervision.

Through the use of internal ratings, the Agency can assess the degree of credit risk associated with clients. The rating is determined by the subject's ability to meet its short term and long term obligations. Monitoring of clients' financial situation is an essential element of the Agency's credit risk management.

### Geographical segmentation

At 31 December 2004

Assets	Domestic CZK m	European union CZK m	Other Europe CZK m	Other CZK m	Total CZK m
Due from banks	521	8	-	1	530
Due from customers	40,926	27	10	-	40,963
Securities available-for-sale	6,093	-	-	-	6,093
Participation interests	5,096	-	-	-	5,096
Other assets	68,340	-	-	-	68,340
<b>Total assets</b>	<b>120,976</b>	<b>35</b>	<b>10</b>	<b>1</b>	<b>121,022</b>

At 31 December 2003

Assets	Domestic CZK m	European union CZK m	Other Europe CZK m	Other CZK m	Total CZK m
Due from banks	2,327	20	1	2	2,350
Due from customers	62,058	-	111	-	62,169
Securities available-for-sale	13,313	-	-	-	13,313
Participation interests	4,965	-	-	-	4,965
Other assets	91,661	-	-	-	91,661
<b>Total assets</b>	<b>174,324</b>	<b>20</b>	<b>112</b>	<b>2</b>	<b>174,458</b>

### Business segmentation

At 31 December 2004

Assets	Private subjects CZK m	State institutions CZK m	Municipalities CZK m	Other CZK m	Total CZK m
Due from banks	530	-	-	-	530
Due from customers	38,887	2,038	38	-	40,963
Securities available-for-sale	6,093	-	-	-	6,093
Participation interests	5,096	-	-	-	5,096
Other assets	3,766	64,574	-	-	68,340
<b>Total assets</b>	<b>54,372</b>	<b>66,612</b>	<b>38</b>	<b>-</b>	<b>121,022</b>



At 31 December 2003

Assets	Private subjects CZK m	State institutions CZK m	Municipalities CZK m	Other CZK m	Total CZK m
Due from banks	2,350	-	-	-	2,350
Due from customers	55,434	6,673	62	-	62,169
Securities available-for-sale	13,313	-	-	-	13,313
Participation interests	4,965	-	-	-	4,965
Other assets	7,192	84,469	-	-	91,661
<b>Total assets</b>	<b>83,254</b>	<b>91,142</b>	<b>62</b>	<b>-</b>	<b>174,458</b>

(c) Derivative financial instruments

The Agency has outstanding derivative contracts which can be analysed as follows:

Assets	31 December 2004 CZK m	31 December 2003 CZK m
Trading agreements	-	32
Cash flow hedging agreements	97	150
<b>Positive fair value of financial derivatives (Note 9)</b>	<b>97</b>	<b>182</b>

Liabilities	31 December 2004 CZK m	31 December 2003 CZK m
Trading agreements	-	2
Cash flow hedging agreements	135	119
<b>Negative fair value financial derivatives (Note 16)</b>	<b>135</b>	<b>121</b>

	31 December 2004			31 December 2003		
	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m
Trading agreements						
Currency swaps	-	-	-	731	32	2

Change of the fair value of trading derivatives is recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Agency's risk management positions, do not qualify for hedge accounting under the specific Czech accounting rules and are therefore presented above as trading derivatives with fair value gains and losses recognised in the income statement.

	31 December 2004			31 December 2003		
	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m
Cash flow hedging agreements						
Interest rate derivatives						
Interest rate swaps	10,000	97	135	10,000	150	119

Fair value gains and losses of the above qualifying cash flow hedging instruments are deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income.

The tables above provide a detailed breakdown of the nominal or notional amounts and the fair value of the Agency's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Agency to transfer, modify or reduce its foreign exchange and interest rate risks.

The nominal or notional amounts provide a basis for volume comparison with instruments recognised on the balance sheet but do not indicate the Agency's exposure to credit or price risk.

#### (d) Currency risk

The Agency takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates especially EUR and USD. The net asset or liability represents the Agency's exposure to movements in the exchange rate of each foreign currency and the Czech Crown. The exposure is actively managed through FX swaps, which are included in off-balance sheet long and short positions. The Agency actively monitors its limits for managing its currency risk.

The table below summarises the Agency's currency exposure. Included in the table are the Agency's assets, liabilities and equity stated at their carrying amounts, categorised by currency.

**As at 31 December 2004**

<b>Assets</b>	<b>CZK CZK m</b>	<b>EUR CZK m</b>	<b>USD CZK m</b>	<b>SKK CZK m</b>	<b>GBP CZK m</b>	<b>Other CZK m</b>	<b>Total CZK m</b>
Due from banks	87	294	147	-	2	-	530
Due from customers	40,701	70	192	-	-	-	40,963
Securities available-for-sale	442	-	73	-	-	-	515
Other assets	78,709	-	-	-	-	305	79,014
	<b>119,939</b>	<b>364</b>	<b>412</b>	<b>-</b>	<b>2</b>	<b>305</b>	<b>121,022</b>
<b>Liabilities</b>							
Due to banks	49,109	-	154	-	-	-	49,263
Due to customers	11,035	352	236	-	-	-	11,623
Liabilities from debt securities	40,474	-	-	-	-	-	40,474
Provisions	2,586	-	-	-	-	-	2,586
Other liabilities	2,162	-	-	-	-	-	2,162
	<b>105,366</b>	<b>352</b>	<b>390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>106,108</b>
Balance sheet net	14,573	12	22	-	2	305	14,914
Net off-balance sheet assets/(liabilities)	-	-	-	-	-	-	-
<b>Net open currency position</b>	<b>14,573</b>	<b>12</b>	<b>22</b>	<b>-</b>	<b>2</b>	<b>305</b>	<b>14,914</b>

**As at 31 December 2003**

<b>Assets</b>	<b>CZK CZK m</b>	<b>EUR CZK m</b>	<b>USD CZK m</b>	<b>SKK CZK m</b>	<b>GBP CZK m</b>	<b>Other CZK m</b>	<b>Total CZK m</b>
Due from banks	1,606	512	218	1	1	12	2,350
Due from customers	61,253	517	386	-	-	13	62,169
Securities available-for-sale	1,437	-	83	-	-	-	1,520
Other assets	108,413	-	6	-	-	-	108,419
	<b>172,709</b>	<b>1,029</b>	<b>693</b>	<b>1</b>	<b>1</b>	<b>25</b>	<b>174,458</b>
<b>Liabilities</b>							
Due to banks	94,431	206	-	-	-	-	94,637
Due to customers	7,274	475	323	-	-	11	8,083
Liabilities from debt securities	43,570	-	-	-	-	-	43,570
Provisions	4,003	-	-	-	-	-	4,003
Other liabilities	7,126	-	-	-	-	-	7,126
	<b>156,404</b>	<b>681</b>	<b>323</b>	<b>-</b>	<b>-</b>	<b>11</b>	<b>157,419</b>
Balance sheet net	16,305	348	370	1	1	14	17,039
Net off-balance sheet assets/(liabilities)	-	(340)	(360)	-	-	-	(700)
<b>Net open currency position</b>	<b>16,305</b>	<b>8</b>	<b>10</b>	<b>1</b>	<b>1</b>	<b>14</b>	<b>16,339</b>

**(e) Interest rate risk**

The Agency takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as the result of such changes but they may decrease or result in losses in the event of unexpected movements.

Limits for the management of interest rate risk have been set. The Agency monitors portfolio sensitivity to changes in interest rates using GAP analysis.

The table below summarises the Agency's exposure to interest rate risk. Included in the table are the Agency's interest bearing assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates. Non-interest bearing financial assets and liabilities are classified as not specified.

**At 31 December 2004**

Assets	Within 3 months CZK m	3 - 12 months CZK m	1 - 5 years CZK m	Over 5 years CZK m	Not specified CZK m	Total CZK m
Due from banks	530	-	-	-	-	530
Due from customers	22,918	1,512	260	8,656	7,617	40,963
Debt securities	-	-	442	73	-	515
Other assets	521	1,952	65,508	-	11,033	79,014
	<b>23,969</b>	<b>3,464</b>	<b>66,210</b>	<b>8,729</b>	<b>18,650</b>	<b>121,022</b>
<b>Liabilities</b>						
Due to banks	24,944	23,419	900	-	-	49,263
Due to customers	10,280	1,343	-	-	-	11,623
Liabilities from debt securities	9,814	10,659	15 001	5,000	-	40,474
Provisions	-	-	-	-	2,586	2,586
Other liabilities	1,579	448	-	-	135	2,162
	<b>46,617</b>	<b>35,869</b>	<b>15,901</b>	<b>5,000</b>	<b>2,721</b>	<b>106,108</b>

At 31 December 2003

Assets	Within 3 months CZK m	3 - 12 months CZK m	1 - 5 years CZK m	Over 5 years CZK m	Not specified CZK m	Total CZK m
Due from banks	2,350	-	-	-	-	2,350
Due from customers	17,628	12,926	14,818	1,568	15,229	62,169
Debt securities	1,094	-	426	-	-	1,520
Other assets	11	-	-	-	108,408	108,419
	<b>21,083</b>	<b>12,926</b>	<b>15,244</b>	<b>1,568</b>	<b>123,637</b>	<b>174,458</b>
<b>Liabilities</b>						
Due to banks	78,555	12,029	4,053	-	-	94,637
Due to customers	7,597	464	22	-	-	8,083
Liabilities from debt securities	10,173	23,681	4,716	5,000	-	43,570
Provisions	-	-	-	-	4,003	4,003
Other liabilities	1,594	4,838	694	-	-	7,126
	<b>97,919</b>	<b>41,012</b>	<b>9,485</b>	<b>5,000</b>	<b>4,003</b>	<b>157,419</b>

**(f) Liquidity risk**

The Agency prepares a statement of actual and residual maturities of its assets and liabilities and monitors the limits for the purposes of liquidity risk management.

The table below analyses assets and liabilities of the Agency into their relevant maturity bands based on the remaining period at the balance sheet date to the contractual maturity date.

**At 31 December 2004**

<b>Assets</b>	<b>Within 3 months CZK m</b>	<b>3 - 12 months CZK m</b>	<b>1 - 5 years CZK m</b>	<b>Over 5 years CZK m</b>	<b>Not specified CZK m</b>	<b>Total CZK m</b>
Due from banks	530	-	-	-	-	530
Due from customers	15,230	5,173	3,361	8,907	8,292	40,963
Debt securities	-	-	442	73	-	515
Other assets	521	1,952	65,508	-	11,033	79,014
	<b>16,281</b>	<b>7,125</b>	<b>69,311</b>	<b>8,980</b>	<b>19,325</b>	<b>121,022</b>
<b>Liabilities</b>						
Due to banks	8,926	10,766	20,881	8,690	-	49,263
Due to customers	9,720	1,342	561	-	-	11,623
Liabilities from debt securities	9,814	10,659	15,001	5,000	-	40,474
Provisions	-	-	-	-	2,586	2,586
Other liabilities	1,579	448	-	-	135	2,162
	<b>30,039</b>	<b>23,215</b>	<b>36,443</b>	<b>13,690</b>	<b>2,721</b>	<b>106,108</b>

**At 31 December 2003**

<b>Assets</b>	<b>Within 3 months CZK m</b>	<b>3 - 12 months CZK m</b>	<b>1 - 5 years CZK m</b>	<b>Over 5 years CZK m</b>	<b>Not specified CZK m</b>	<b>Total CZK m</b>
Due from banks	2,350	-	-	-	-	2,350
Due from customers	6,111	12,554	22,551	2,486	18,467	62,169
Debt securities	1,094	-	426	-	-	1,520
Other assets	11	-	-	-	108,408	108,419
	<b>9,566</b>	<b>12,554</b>	<b>22,977</b>	<b>2,486</b>	<b>126,875</b>	<b>174,458</b>
<b>Liabilities</b>						
Due to banks	9,201	41,895	38,541	5,000	-	94,637
Due to customers	7,213	829	41	-	-	8,083
Liabilities from debt securities	5,371	8,704	24,495	5,000	-	43,570
Provisions	-	-	-	-	4,003	4,003
Other liabilities	1,594	4,838	694	-	-	7,126
	<b>23,379</b>	<b>56,266</b>	<b>63,771</b>	<b>10,000</b>	<b>4,003</b>	<b>157,419</b>

## 27 TOTAL DIRECT EXPOSURE TO STATE AND NPF

	31 December 2004 CZK m	31 December 2003 CZK m
Guarantees from State (Note 19)	2,066	4,254
Receivable from State due to repayment of losses (Note 9)	64,574	81,488
<b>Total exposure to State</b>	<b>66,640</b>	<b>85,742</b>
Guarantees issued by NPF (Note 19) <sup>1)</sup>	13,664	25,789
Receivable from NPF due to repayment of losses of Konpo (Note 9)	462	922
Loan granted to NPF	-	7
<b>Total exposure to NPF</b>	<b>14,126</b>	<b>26,718</b>

<sup>1)</sup> As at 31 December 2003 guarantees issued by NPF include CZK 5,862 million to cover the Agency's potential losses from asserted guarantee rights relating to selected assets of KB.

With respect to the expected termination of the NPF at the end of 2005, the obligations of NPF are expected to be assumed by another state body.

## 28 SUBSEQUENT EVENTS

### (a) Early payment of loan to the Agency

On 8 March 2005 an early repayment of CZK 1.8 billion of a receivable of Osinek, a.s., was made. There was no net profit or loss impact from this repayment.

### (b) Sale of Black Diamond securities

Based on a governmental decision, in January 2005 the Agency sold Black Diamond CLO 2000-1/U.S. USD 10,000,000 Class C-2 Participation Notes securities for USD 9,013 thousand. There was not a significant net profit or loss realised from this sale.

### (c) Realised sale of receivables and shares

The Agency has realised several sales of receivables and shares in 2005 up to the date of approval of these financial statements. There was not a significant net profit or loss realised from these sales.

### (d) Planned sale of receivables and shares

The Agency has formal plan for the sale of number of receivables and shares. The management of the Agency expects these sales will have no significant net profit or loss impact.

These financial statements have been approved for submission to the Supervisory Board by the Board of Directors and have been signed on their behalf by:

Date	Signature of the statutory representative
31 March 2005	Ing. Petr Goldmann Ing. Mojmír Hampl, MSc., Ph.D.



## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### Report of independent auditors to the Board of the Directors and Supervisory Board of Česká konsolidační agentura

We have audited the accompanying consolidated balance sheet of Česká konsolidační agentura and its subsidiaries (hereinafter referred to as “the Group”), the related consolidated statements of income and changes in equity and consolidated notes for the year then ended (“the consolidated financial statements”). The consolidated financial statements and underlying accounting records are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Explosia, a.s., a wholly owned subsidiary, which statements reflect total assets of CZK 1,255 million of the related consolidated totals as at 31 December 2004 and total revenues of CZK 602 million of the related consolidated totals for the year then ended. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Explosia, a.s., is based solely on the report of the other auditor.

The accompanying consolidated financial statements are not intended to present the assets, liabilities, equity and the results of its operations and its changes in equity in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Czech Republic. Accordingly the accompanying consolidated financial statements are not designed for those who are not informed about Czech accounting principles, procedures and practices.

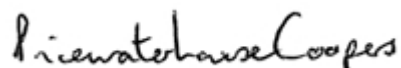
We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes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

In our opinion, based on our audit and the report of the other auditor, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Group as at 31 December 2004, and the results of its operations and its changes in equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.


Without qualifying our opinion, we draw attention to Note 19 to the consolidated financial statements, which explains that Konsolidační banka Praha, s. p. ú. the legal predecessor of Česká konsolidační agentura, has received an official interpretation of the relevant accounting legislation by the Ministry of Finance (in its capacity as the body responsible for setting

accounting standards in the Czech Republic), which was issued having regard to the State's general guarantee to cover losses of Česká konsolidační agentura. In accordance with this interpretation, the Group has set aside within the statutory reserve fund, which forms part of the equity of the Group, an amount of CZK 7,192 million (31 December 2003: CZK 9,228 million) to cover expected losses on certain specific loans and no provision has been separately reflected for these expected losses. This interpretation was reconfirmed to Česká konsolidační agentura by the Ministry of Finance on 27 October 2003.

28 April 2005



PricewaterhouseCoopers Audit, s.r.o.  
represented by



Paul Cunningham  
Partner



Petr Kříž  
Auditor, Licence No. 1140

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004 - assets

Assets:	Note	31 December 2004 CZK million	31 December 2003 CZK million
Cash and deposits with central banks	3	5	7
Due from banks	4	3,357	8,194
of which: a) repayable on demand		235	430
b) other receivables		3,122	7,764
Due from customers	5	40,189	56,954
Debt securities	6	515	1,520
Shares, mutual shares and other interests	6	5,740	11,955
Participation reflected under the equity method	7	1,532	986
Unconsolidated equity investments	8	2,341	3,791
Long-term intangible fixed assets	9	55	50
Long-term tangible fixed assets	9	3,501	2,679
of which: land and buildings for operating activities		2,726	1,847
Other assets	10	71,196	93,144
Prepayments and accrued income	11	59	9
<b>Total assets</b>		<b>128,490</b>	<b>179,289</b>

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004 - liabilities

Liabilities:	Note	31 December 2004 CZK million	31 December 2003 CZK million
Due to banks	13	54,407	100,246
Due to customers	14	9,477	5,369
of which: a) repayable on demand		1,256	3,179
b) other payables		8,221	2,190
Liabilities from debt securities - issue	15	40,048	42,359
Other liabilities	17	3,007	6,634
Accruals and deferred income	18	96	137
Provisions	12	2,594	4,006
of which: a) provisions for taxes		8	3
b) other provisions		2,586	4,003
Share capital paid up (without minority interest)	19	5,950	5,950
Capital reserves (without minority interest)		1,720	6,316
Reserve funds and revenue reserves (without minority interest)	19	13,547	26,663
of which: a) statutory reserve funds and risk funds		13,374	26,562
b) other reserve funds		155	83
c) other revenue reserves		18	18
Revaluation reserve from hedging derivatives	19	4	90
Accumulated profits/accumulated loss from previous periods (without minority interest)		2,209	(1,480)
Loss for the accounting period (without minority interest)		(5,412)	(17,929)
of which: a) loss for the accounting period without minority interest on loss from equity method consolidation		(5,644)	(18,001)
b) share on profit from equity method consolidation		232	72
Minority interest		843	928
of which: a) minority share capital		897	897
b) minority capital funds		27	27
c) minority funds from profit including retained earnings		4	436
d) minority loss for the accounting period		(85)	(432)
<b>Total liabilities</b>		<b>128,490</b>	<b>179,289</b>

OFF-BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	31 December 2004 CZK million	31 December 2003 CZK million
<b>Off-balance sheet assets:</b>			
Commitments and guarantees given	20	2,154	8,846
a) commitments		-	356
b) guarantees and collaterals		2,154	8,406
c) guarantees from bills of exchange		-	84
Collaterals given		1,746	1,654
Receivables from spot transactions with currency instruments		9	21
Receivables from term instruments	28	10,000	11,345
a) currency instruments		-	731
b) equity instruments		-	614
c) interest instruments		10,000	10,000
Receivables written-off	12	16,411	10,618
Securities in custody	20	613	1,308
<b>Total off-balance sheet assets</b>		<b>30,933</b>	<b>33,792</b>
<b>Off-balance sheet liabilities:</b>			
Commitments and guarantees received	20	60,689	67,146
a) commitments		38,995	29,466
b) guarantees and collaterals		21,692	37,677
c) guarantees from bills of exchange		2	3
Collaterals received and pledges	5	3,964	7,361
a) real estate pledges		3,888	7,019
b) cash pledges		-	5
c) securities pledges		-	43
d) other		76	294
Payables from spot transactions with currency instruments		9	22
Payables from term instruments	28	10,000	11,313
a) currency instruments		-	699
b) equity instruments		-	614
c) interest instruments		10,000	10,000
Assets under custody	20	433	1,329
<b>Total off-balance sheet liabilities</b>		<b>75,095</b>	<b>87,171</b>

**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	2004 CZK million	2003 CZK million
Interest receivable and similar income	21	3,820	7,191
of which: interest income from debt securities		114	221
Interest payable and similar expense	22	(4,754)	(6,694)
of which: interest expense on debt securities		(1,485)	(1,743)
Income from shares and other interests	23	33	53
of which: a) unconsolidated income from participating interests with significant influence		24	36
b) unconsolidated income from participating interest with controlling influence		2	-
c) other income from shares and interests		7	17
Fee and commission income	26	25	462
Fee and commission expense	26	(39)	(64)
Gains less losses from financial transactions	24	77	(33,172)
Other operating income	26	6,547	8,897
of which: negative goodwill		651	-
Other operating expense	26	(3,757)	(4,238)
of which: positive goodwill		(185)	(1)
Administrative expense	25	(2,411)	(1,980)
of which: a) staff costs		(1,068)	(917)
of which: aa) wages and salaries		(798)	(682)
ab) social and health insurance		(270)	(235)
b) other administrative expenses		(1,343)	(1,063)
Depreciation, additions and utilisation of provisions for long-term tangible and intangible fixed assets	9	(279)	(222)
Release of provisions for long-term tangible and intangible fixed assets	9	16	-
Release of provisions for loans and guarantees, income from receivables already written-off	26	12 500	17,132
Write-offs, additions and utilisation of provisions for loans and guarantees	26	(17,613)	(31,945)
Release of provisions for participating interest with significant and controlling influence	26	413	-
Loss from transfer of participating interest with significant and controlling influence	26	(274)	(4,829)
Additions and utilisation of other specific provisions	26	(40)	30,978
Income tax		(7)	(2)

## CONSOLIDATED ANNUAL REPORT 2004

Share on gains from equity method consolidation		232	72
Minority profit for the year		85	432
<b>Loss for the year without minority interest</b>		<b>(5,412)</b>	<b>(17,929)</b>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital CZK million	Reserve funds and other funds from profit CZK million	Capital funds CZK million	Revaluation reserve CZK million	Accumulated losses CZK million	Total equity CZK million
At 1 January 2003	5,950	32,054	76,637	-	(86,787)	27,854
Effect of change of consolidation scope for the Group	-	888	-	-	(888)	-
Covering 2002 loss from the Capital fund	-	-	(76,412)	-	76,412	-
Covering 2002 loss from the Reserve fund	-	(9,566)	-	-	9,566	-
No consideration acquisition of building and land in Hybernská street	-	-	77	-	-	77
Contribution to the Reserve fund	-	(217)	-	-	217	-
Revaluation differences on hedging derivatives	-	-	-	90	-	90
Drawings from Welfare fund	-	(7)	-	-	-	(7)
Loss for the year 2003	-	-	-	-	(17,929)	(17,929)
Claim for payments to cover 2003 loss - State, NPF	-	2,754	6,014	-	-	8,768
Claim for payments to cover 2003 loss - ČNB	-	757	-	-	-	757
Balance as at 31 December 2003	5,950	26,663	6,316	90	(19,409)	19,610
<b>Covering 2003 loss from the Capital fund</b>	-	-	<b>(6,014)</b>	-	<b>6,014</b>	-
Covering 2003 loss from the Reserve fund	-	(15,678)	-	-	15,678	-
Contribution to the reserve fund - NPF, ČNB	-	74	-	-	(74)	-
Revaluation differences on hedging derivatives	-	-	-	(86)	-	(86)
No consideration acquisition of securities	-	-	3	-	-	3
Drawings from Welfare fund	-	(6)	-	-	-	(6)
Loss for the year 2004	-	-	-	-	(5,412)	(5,412)



CONSOLIDATED ANNUAL REPORT 2004

Claim for payments to cover 2004 loss -State, NPF	-	2,124	1,415	-	-	3,539
Claim for payments to cover 2004 loss - ČNB	-	370	-	-	-	370
<b>Balance as at 31 December 2004</b>	<b>5,950</b>	<b>13,547</b>	<b>1,720</b>	<b>4</b>	<b>(3,203)</b>	<b>18,018</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 1 GENERAL INFORMATION

The ČKA Group (hereafter “the Group”) consisted of six companies and employed 2,951 people at 31 December 2004. The parent company of the Group is Česká konsolidační agentura (hereafter “the Agency” or “ČKA”). The fully consolidated companies are Česká finanční, s.r.o., (hereafter “Česká finanční” or “ČF”), Konpo, s.r.o., (hereafter “Konpo”), PRISKO, a.s., (hereafter “PRISKO”), Spolek pro chemickou a hutní výrobu, akciová společnost (hereafter “Spolek”) and Explosia, a.s., (hereafter “Explosia”).

#### (a) Agency

The Agency was incorporated on 1 September 2001 in accordance with the Act No. 239/2001 on Česká konsolidační agentura as the legal successor of Konsolidační banka Praha, a State financial institution (hereafter “the Bank”).

The main activities of the Agency are administration and realization of non performing receivables accepted and purchased, as per the government's decisions, from commercial banks and companies under difficult financial situations. Other activities of the Agency are restructuring programmes, the funding and supporting of projects, which are determined by a decision of the government.

The Agency retains a number of original activities of the Bank, however, it does not retain the status of a bank. In compliance with Art 1 para 3 of Act No. 239/2001 on Česká konsolidační agentura, liabilities of the Agency are fully guaranteed by the State.

#### (b) Česká finanční, s.r.o.

Česká finanční, s.r.o., was entered in the Commercial Register (held by the City court in Prague, section C, no. 47185) on 2 July 1992 and its registered office is located at V Jámě 1263/6, Prague 1, 111 21.

ČF's core activity is the administration of assets (i.e. loan receivables, securities and equity interests) taken over by ČF within the Programme of stabilising the banking sector in the Czech Republic, as approved on 16 October 1996 by Czech Government Resolution No. 539 (hereafter referred to as “the Stabilisation Programme”), and the Programme declared by the Czech National Bank (hereafter “ČNB”), primarily in connection with the mergers of smaller banks (hereinafter referred to as “the Consolidation Programme”).

#### Stabilisation Programme

Within the scope of the Stabilisation Programme ČF bought assets at their book values from the participating banks. The participation of individual banks in the programme was approved by the ČNB. The banks accepted the obligation to buy these assets back within the next 7

years (i.e. in 2004 - 2005). Guarantees in favour of ČF or other collaterals have been issued by each of the individual banks.

The Programme is funded by the Agency, the legal successor of the Bank. Final coverage of losses from the Stabilisation Programme are ensured by NPF (Note 29) in accordance with the agreements signed by the Česká Finanční, s.r.o., and the Bank on 15 February 2001 ("Agreement on settlement of expenses and coverage of losses relating to realization of programme aiming for fortification of bank sector"). Losses were settled quarterly. Since 2003 there is no need for advances to be paid for the reasons in Note 5(a).

### **Consolidation Programme**

The Consolidation Programme is financed by the ČNB. The losses generated within this Programme exceeding ČF's share capital are covered by the ČNB on the basis of an Agreement from 29 June 2000 ("Agreement on the repayment of the costs from operating activities and settlement of losses within the Consolidation Programme").

#### **(c) Konpo, s.r.o.**

Konpo,s.r.o., was incorporated on 25 January 2000 and has its registered office at Prague 1, Na Příkopě 390/3, 111 21.

Konpo's, s.r.o., core activity is the administration of assets (i.e. loan receivables, securities and equity interests) taken over from Komerční banka, a.s., (hereafter "KB") based on the Czech Government Resolution No. 187 from 16 February 2000.

All losses of Konpo are covered by the Agency based on an Agreement concluded between the Bank and Konpo. The agreement covers items including the payment of costs and coverage of losses incurred by Konpo in relation to KB's asset restructuring operations performed in connection with the privatisation of KB. All losses of Konpo are ultimately covered by NPF (Note 29) and repaid through the Agency. Therefore, Konpo and the Group only creates provisions for additions to administered assets caused by the posting of interest and penalty interest and for bankruptcies declared after the time of the transfer of assets from KB.

#### **(d) PRISKO a.s.**

PRISKO, a.s., was incorporated on 1 October 1992, and has its registered office at Janovského 438/2, 170 06 Praha 7. PRISKO's, a.s., business activity is the management and settlement of assets and liabilities relating to the privatised assets of Škoda Mladá Boleslav.

#### **(e) SPOLEK PRO CHEMICKOU A HUTNÍ VÝROBU, A.S.**

Spolek was registered in the commercial register on 31 December 1990, and has its registered office at Ústí nad Labem, Revoluční 1930/86. Spolek's business activities consist principally of research, development, production and manufacturing of chemical and biochemical products.

**(f) EXPLOSIA a.s.**

Explosia, a.s., was registered in the commercial register on 21 July 1998 and has its registered office at Pardubice - Semtín, 532 17. Explosia's, a.s., business activities consist principally of research, development and production of propellants and explosives.

## **2 ACCOUNTING PROCEDURES FOR CONSOLIDATED FINANCIAL STATEMENTS**

**(a) Basis of preparation**

The consolidated financial statements of the Group, comprising a balance sheet, statements of income and of changes in equity and accompanying notes, are prepared in accordance with the Act on accounting and the applicable accounting rules set by the Ministry of Finance of the Czech republic ("MF ČR"). Accounts of consolidated subsidiaries, which are based on the Chart of accounts and accounting procedures for non-financial institutions, have been adjusted for material differences to comply with the Chart of accounts and accounting rules for banks and other financial institutions. The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of derivatives, financial instruments held for trading and available-for-sale to fair values.

The consolidated financial statements of the Group are prepared for the year ended 31 December 2004 and include the accounts of the Agency, all subsidiaries controlled by the Agency, and associated undertakings owned by the Agency and its subsidiaries, other than those excluded because of the reasons listed below.

The amounts are rounded to millions of Czech Crowns ("CZK million" or "CZK m") unless stated otherwise.

In compliance with Czech accounting legislation, the Group did not perform full consolidation of certain subsidiary companies or equity consolidation of certain associated companies for the year ended 31 December 2004 for the following reasons:

- Businesses in bankruptcy proceedings or in liquidation: Baska, a.s., in liquidation, COOP BANKA, a.s., in liquidation, Ekoagrobanka, a.s., in liquidation, H-SYSTEM, a.s., 1. českoamerická realitní společnost, a.s., in liquidation, CRF Praha, a.s., in liquidation, TCHECOMALT GROUP, a.s., Ostalak, a.s., Českomoravská lékárnická platebna, a.s., in liquidation.
- Companies below minimum statutory limit for consolidation: První východní, a.s., IPB REAL INVESTMENT, a.s., BH CAPITAL, a.s., Autoklub Bohemia Assistance, a.s., ARTA REAL, k.s., Jihočeské papírny, a.s., Větřní, Jihočeské lesy České Budějovice, a.s., Výzkumný ústav pivovarský a sladařský, a.s., VZLÚ, a.s., CZ CREDIT REAL, k.s., GALILEO REAL, k.s., BRNO INN, a.s., Lesní společnost Hradec Králové, a.s., INTEGRA, a.s., H-SYSTÉM LUXUS, a.s., ZVI,

a.s., UNIPLET Třebíč, a.s., IMOB, a.s., COLORLAK, a.s., Synpo, a.s., Epispol, a.s., Spolchemie, a.s., Global Investment, a.s.

Subsidiary companies included in the Group consolidation are fully consolidated within the rules defined for banks and other financial institutions. In accordance with the Czech rules for full consolidation, the following steps have been taken:

- Items in the separate financial statements of the consolidated companies were combined on a line-by-line basis;
- Items treated differently in consolidated subsidiaries were reclassified in accordance with the defined consolidation rules so as to be in accordance with the Agency's accounting policies;
- Consolidated subsidiaries' recognition, measurement and disclosure policies which are materially different to the Agency's accounting policies were adjusted on consolidation;
- Unrealised gains and losses on transactions between Group companies have been eliminated;
- All significant intergroup balances and transactions were eliminated.

Associated companies included in the Group consolidation are reflected using the equity method within the rules defined for banks and other financial transactions.

#### **(b) Foreign currency**

Financial assets and liabilities of the Group denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by ČNB effective at the balance sheet date. All resulting foreign exchange gains and losses from monetary items are recognised in Gains less losses from financial transactions.

#### **(c) Fair value of securities**

The fair value of a security is determined as the market value quoted by a relevant stock exchange or other active public market. In other cases the fair value is estimated by:

- the share on the investee's equity for equities;
- the net asset value for mutual funds;
- the risk adjusted net present value for debt securities and notes.

#### **(d) Trading securities**

Trading securities were either acquired for generating profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are

treated as derivatives. Interest earned on trading securities is reported as interest income on securities.

**(e) Available-for-sale investment securities**

Available-for-sale investment securities are neither trading securities nor securities held-to-maturity. They comprise mainly shares in companies other than in subsidiaries and associates and debt securities held for liquidity management. Available-for-sale securities are measured in the same way as trading securities.

**(f) Securities held-to-maturity**

Investment securities held-to-maturity are securities with fixed maturity where the Group has both the intent and the ability to hold them to maturity.

They are measured at amortised cost.

**(g) Transfers between portfolios**

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- trading securities cannot be transferred to other portfolios;
- on sale or transfer of any securities held-to-maturity, the Group must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity within the two following accounting periods.  
Exceptions to this rule are allowed within the last three months before maturity or in the case of a significant deterioration in an issuer's creditworthiness.

**(h) Investments in subsidiary and associated undertakings**

A subsidiary is an enterprise in which the Group, which means that the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and, once such subsidiaries have been consolidated, are no longer consolidated from the date of disposal. Certain companies have not previously been consolidated and are still not consolidated, since they are in bankruptcy proceedings, in liquidation or immaterial from the Group prospective (Note 2(a)).

An associated undertaking is an enterprise where the Group has significant influence which is the power to participate in the financial and operating policy decisions, but not control.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries and associated undertakings is fully amortised upon acquisition.

Investments of the Group in subsidiary and associated undertakings not meeting the criteria for full consolidation or equity accounting (for reasons of non-consolidation refer to the Note 2(a)) are measured at the lower of cost and the Group's share of the net equity of the unconsolidated subsidiary or associated undertakings less potential impairment. Provisions for any impairment arising are disclosed.

#### **(i) Securities financing arrangements**

Securities borrowed or purchased under agreements to resell (reverse repo agreements) are not recognised on the balance sheet. Securities lent or sold under agreements to repurchase (repo agreements) are retained in their original portfolio. The underlying cashflows are recorded as Due to banks or customers and Due from banks or customers, as appropriate, on a settlement date basis.

#### **(j) Derivative financial instruments and hedging**

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps and other derivative financial instruments are initially recognised on balance sheet at cost and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash-flow models. All derivatives are presented in other assets or in other liabilities when their fair value is positive or negative respectively.

Certain derivatives embedded in other financial instruments, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value.

Changes in the fair value of derivatives held for trading are included in Gains less losses from financial transactions.

The Group designates prospectively certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

- (i) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- (ii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- (iii) the hedge is effective on an ongoing basis;
- (iv) the hedged item is not a security classified as held for trading.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the hedging reserve in equity and transferred to the income statement and classified as income or expense in the periods during which the hedged item affects the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### **(k) Interest income and expense**

Interest income and expense are recognised for all interest bearing instruments on an accrual basis using the effective interest method based on the acquisition cost. The straight-line method is used as an approximation for cash-flows maturing within 12 months from the balance sheet date. Interest income includes accrued coupons, discount and premium on all fixed income instruments.

Income on non performing loans is also accrued and capitalised into the related loan balance. Such amounts are considered in estimating the provision for non-performing loans.

#### **(l) Revenue recognition for goods and services**

Sales of goods are recognised when goods are shipped or upon the performance of services and are shown net of discounts and Value Added Tax.

Revenues from rendering of services are recognised if it is probable that the economic benefits associated with the transaction will flow to the Group and the revenues and costs can be measured reliably.

#### **(m) Penalty interest**

Penalty interest income is excluded from interest income until received. Amounts previously recognised as income are not reversed.

#### **(n) Provisions and allowances**

Specific provisions are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised in the income.

Provisions are set aside in the currency, in which the settlement is expected to be made.

Allowances are deducted from the cost of each impaired asset. The amount of allowance for impaired loans and other assets is based on appraisals of these assets at the balance sheet



date after taking into consideration the present forced sale value of collateral or guarantee arising from the agreements if the Group has the intention to exercise the guarantee in the future. The market in the Czech Republic for many collaterals is at an early stage of development and there is a low level of liquidity for certain types of assets. As a result, the realisable value on foreclosure may differ from the value described in estimating allowances.

In the estimation of impairment and related specific and general provisions, the Group takes into account the net value of various covenants, guarantees and loss compensation arrangements provided by third parties. When creating allowances for loans for working capital finance, the partial coverage provided by the special-purpose reserve fund and specific provisions are taken into consideration as disclosed (Note 19).

Additions to allowances are recognised in the income statement, their utilisation is recognised together with expenses and losses, connected with the decrease of assets, in the income statement. Release of allowances in case they are no longer necessary is recognised in the income.

Allowances for assets denominated in foreign currency are created in foreign currency. Foreign exchange differences are recognised in the same way as foreign exchange differences from asset revaluation, to which they relate.

#### **(o) Long-term tangible and intangible fixed assets**

Long-term tangible and intangible fixed assets are recorded at cost. Fixed assets are depreciated/amortised by applying the straight-line basis over the estimated useful lives resulting in the following annual rates:

Buildings and constructions	30 years
Hardware and equipment	4 years
Furniture and fittings	6 years
Motor vehicles	4 years
Software	4 years

Repair and maintenance expenditures are charged to expenses as incurred. Expenditures enhancing the value of the asset are capitalised and depreciated.

Assets held under finance lease agreements are not capitalised and are accounted for in the same way as operating leases, with rental charges being reflected in the income statement on a straight-line basis. Neither is the corresponding lease obligation recorded as a liability.

#### **(p) Taxation**

The tax payable of the Group is stated in compliance with the relevant legislation of the Czech Republic. The Agency's income is exempted from corporate income tax, therefore, deferred and current taxes are not recognised by the Agency.

#### **(q) Deferred taxation**

Deferred tax liability of the Group is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised. The Agency does not recognise deferred tax due to its exemption from corporate income tax, however deferred tax is recognised on other Group companies where relevant.

#### **(r) Staff costs, pensions and social fund**

Staff costs are included in Administrative expenses and they include also Board and statutory representative emoluments.

The Group's pension plans are voluntary and the Group makes defined contributions to them in addition to statutory social security paid in accordance with the Act on Social Insurance. Contributions are charged directly to expenses.

Other social expenses are settled from the Welfare fund (hereafter "WF"), disclosed as Other funds. Social fund contributions are not charged to the income statement in accordance with Czech accounting rules and are presented within equity.

#### **(s) Related parties**

Related parties are defined as follows:

- Board members and management of companies included in the Group;
- relatives (direct family members) of Board members and senior management of companies included in the Group;
- entities, in which Board members or senior management of companies included in the Group hold at least 10% shareholding;
- non-consolidated subsidiaries and associated companies of the Group.

Significant transactions, balances and methods for the measurement of related party transactions are set out in notes 5 and 14.

#### **(t) Subsequent events**

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are reflected in the financial statements in the case that these events provide further evidence of conditions that existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date prior to preparation of the financial statements, which are indicative of conditions that arose subsequent to the

balance sheet date, the effects of these events are disclosed, but are not themselves reflected in the financial statements.

In accordance with the Czech consolidation rules, the consolidation of the Group was prepared based on the statutory accounts of consolidated companies. In particular, as a result, no account is taken of subsequent events which occurred after the date of preparation of the holding company's financial statements.

### 3 CASH AND DEPOSITS WITH CENTRAL BANKS

	31 December 2004 CZK m	31 December 2003 CZK m
Cash on hand	5	7

### 4 DUE FROM BANKS

	31 December 2004 CZK m	31 December 2003 CZK m
Current accounts with banks	235	430
Term deposits with banks	534	2,339
Other due from banks	2,588	5,425
	<b>3,357</b>	<b>8,194</b>

## 5 DUE FROM CUSTOMERS

	31 December 2004 CZK m	31 December 2003 CZK m
Standard loans to companies and individuals	2,019	5,450
Impaired loans to companies and individuals	83,518	96,896
Standard loans to housing co-operatives <sup>1)</sup>	8,547	9,440
Impaired loans to housing co-operatives <sup>1)</sup>	13	30
Standard loans to governmental entities	2,008	2,809
Impaired loans to governmental entities	2,070	2,228
Standard loans to municipalities	19	2
Impaired loans to municipalities	84	273
Other receivables from customers	20,758	23,185
Loans within the Consolidation and Stabilisation Programmes	11,612	11,950
	<b>130,648</b>	<b>152,263</b>
Allowance for impaired loans (Note 12) <sup>2)</sup>	(90,459)	(95,309)
	<b>40,189</b>	<b>56,954</b>

<sup>1)</sup> In its portfolio the Agency has loans granted to housing co-operatives. These loans were acquired from Investiční a Poštovní banka, a.s., (hereinafter "IPB"). The difference between the funding cost and interest income is compensated by MF ČR.

<sup>2)</sup> In addition to the allowances for watch and impaired receivables the Group has reflected a specific provision for receivables of CZK 2,176 million as at 31 December 2004 (31 December 2003: CZK 2,321 million) in liabilities as required by Czech accounting regulations (Note 12).

A statutory reserve fund will be used to cover expected losses of CZK 7,192 million (31 December 2003: CZK 9,228 million ) from the old block of loans. In the year 2004 losses of CZK 2,036 million from assigned and written off exposures from the old block of loans were covered by the reserve fund (for the year 2003: CZK 12,168 million (Note 19)).

### (a) Quality of loan portfolio

In accordance with the definitions issued by the CNB, the receivables due from customers portfolio can be analysed as follows:

	31 December 2004 CZK m	31 December 2003 CZK m
Standard	12,593	17,738
Watch	607	304
Impaired: - substandard	899	6,903
- doubtful	7,100	5,205
- loss	109,449	122,113
	<b>130,648</b>	<b>152,263</b>

The forced sale value ascribed to assets received as collateral for loans to customers can be analysed as follows:

	31 December 2004 CZK m	31 December 2003 CZK m
Cash	-	5
Securities	-	43
Land and buildings	3,888	7,019
Other fixed assets	76	294
	<b>3,964</b>	<b>7,361</b>

In addition to the above assets received as collateral, the Group records guarantees from customers, in the amount of CZK 21,698 million (31 December 2003: CZK 31,815 million).

During the year 2003 ČF concluded a Settlement agreement with Československá obchodní banka, a.s., (hereafter "ČSOB") as the successor of Banka Haná, a.s., within the Stabilisation Programme. Based on this agreement there is a significant receivable from ČSOB in ČF's books, which by mutual agreement has not been publicly disclosed. As a consequence ČF released allowances for the receivables from Banka Haná, a.s., and accounted for the difference between the receivable arising from the Settlement agreement and originally booked receivable from Banka Haná, a.s., in Other operating revenues. The receivable from ČSOB was partially repaid during year 2004 and the outstanding balance will be paid during year 2005.

Other receivables include the principal and also interest of the loans transferred to ČF under the Stabilisation and Consolidation Programme.

In 2004 correction of the calculation of interest income from loan receivables was made in ČF so that interest income is reflected based on the underlying loan agreements and other loan documentation other than the terms of the Stabilisation and Consolidation Programme.

Other receivables under the Consolidation programme are covered by a guarantee of ČNB. Allowances of 100.00 % were created for other receivables included in the Stabilisation Programme as of 31 December 2004 to reflect their expected net realizable value.

**(b) Loans to unconsolidated related parties**

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Unconsolidated subsidiary undertakings:</b>		
Loans to subsidiaries	3,326	4,426
Allowance for impaired loans	(3,326)	(4,357)
	-	<b>69</b>
<b>Unconsolidated associated undertakings:</b>		
Loans to associated parties	125	500
Allowance for impaired loans	(125)	(201)
	-	<b>299</b>
<b>Other related parties:</b>		
Board of Directors (Statutory representatives) of the companies of the Group	-	-
Supervisory Board of the companies of the Group	-	-
Management of companies of the Group	-	-
	-	-

All loans to unconsolidated related parties were made in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers. Based on certain Government decisions, loans were also granted to selected companies in order to improve their financial position.

Loans to unconsolidated subsidiaries have been provided based on an assessment of the suitable loan structure of the ČKA Group. The interest rates on loans provided were on an arm's length basis. All risks associated with the loans provided to subsidiaries are fully covered by the NPF guarantee.

## 6 SECURITIES

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Debt securities including state treasury bills issued by other entities than government bodies</b>		
Free market of recognised stock exchanges	-	1,011
Unquoted	515	509
	515	1,520
<b>Shares, mutual shares and other interests</b>		
Main or auxiliary market of recognised stock exchanges	130	166
Unquoted	5,610	11,789
	<b>5,740</b>	<b>11,955</b>

## 7 PARTICIPATIONS REFLECTED UNDER THE EQUITY METHOD

At 31 December 2004

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Share %	Share of net equity under equity method CZK m	Share of profits under equity method CZK m
České aerolinie a.s., Praha	2,053	946	2,736	34.59	638	-
AERO Vodochody a.s., Odolena Voda	1,602	1,256	2,692	46.65	-	-
KORADO, a.s., Česká Třebová	86	288	841	34.22	302	117
První česko-ruská banka, s.r.o., Moskva	440	392	2,829	13.87	436	70
VÁLCOVNY PLECHU, a.s., Frýdek-Místek	117	117	688	16.97	156	45
					<b>1,532</b>	<b>232</b>

At 31 December 2003

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Share %	Share of net equity under equity method CZK m	Share of profits under equity method CZK m
České aerolinie a.s., Praha	2,053	946	2,736	34.59	638	50
AERO Vodochody a.s., Odolena Voda	1,602	781	2,692	29.00	-	-
KORADO, a.s., Česká Třebová	86	288	841	34.22	185	38
První česko-ruská banka, s.r.o., Moskva	233	161	2,916	5.52	163	2
VZLÚ, a.s., Praha	290	357	751	47.55	-	(18)
					<b>986</b>	<b>72</b>

## 8 UNCONSOLIDATED EQUITY INVESTMENTS

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Subsidiary undertakings:</b>		
Cost	3,635	5,672
Allowances for diminution in value (Note 12)	(2,628)	(3,956)
Net	1,007	1,716
<b>Associated undertakings:</b>		
Cost	2,207	5,671
Allowances for diminution in value (Note 12)	(873)	(3,596)
Net	1,334	2,075
	<b>2,341</b>	<b>3,791</b>



**(a) Investments in unconsolidated subsidiary undertakings**

**At 31 December 2004**

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Share %
IPB REAL INVESTMENT, a.s., Praha	-	50	50	100.00
Autoklub Bohemia Assistance, a.s., Praha	112	83	120	69.00
CRF Praha a.s. v likvidaci, Praha	-	434	434	100.00
První východní a.s., Praha	30	5	5	100.00
Global Investment a.s., Praha	115	744	744	100.00
TCHECOMALT GROUP, a.s., Prostějov	-	399	400	99.93
ARTA REAL, k.s., Praha	1,630	2,900	2,900	100.00
CZ CREDIT REAL, k.s., Praha	1,032	2,900	2,900	100.00
IMOB a.s., Praha <sup>1)</sup>	-	-	2	11.36
BH CAPITAL, a.s., Prostějov	402	733	1,020	71.89
SYNPO, a.s., Pardubice	12	27	51	52.58
EPISPOL, a.s., Ústí nad Labem	300	300	300	100.00
SPOLCHEMIE, a.s., Ústí nad Labem	1	1	1	100.00
OSTALAK, a.s., v konkurzu, Ústí nad Labem	1	1	1	100.00
	<b>3,635</b>			
Allowances for impairment (Note 12)	(2,628)			
	<b>1,007</b>			

<sup>1)</sup> The company is a subsidiary of the Group through the Group's managerial rights.

At 31 December 2003

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Share %
ADEX, a.s., Tachov	-	352	385	91.28
VSM ČR, a.s. v likvidaci, Praha	-	1	1	100.00
IPB REAL INVESTMENT, a.s., Praha	-	50	50	100.00
Autoklub Bohemia Assistance, a.s., Praha	112	83	120	69.00
CRF Praha a.s. v likvidaci, Praha	-	434	434	100.00
KRÁLOVOPOLSKÁ, a.s., Brno	209	209	311	67.00
První východní a.s., Praha	30	5	5	100.00
TCHecomalt GROUP, a.s., Prostějov	-	399	400	99.93
TRUSTFIN, a.s., Praha	-	251	251	100.00
ZVI a.s., Praha	-	228	228	100.00
UNIPLLET Třebíč, a.s. <sup>1)</sup>	-	-	294	0.07
IMOB a.s., Praha <sup>1)</sup>	-	-	2	11.36
BH CAPITAL, a.s., Prostějov	402	733	1,020	71.89
ČKD PRAHA HOLDING, a.s., Praha	4,278	4,495	8,145	55.20
Baska, a.s. v likvidaci, Praha	101	571	571	100.00
COOP Banka, a.s. v likvidaci, Brno	500	500	501	99.80
Ekoagrobanka, a.s. v likvidaci, Ústí nad Labem	-	500	501	99.76
COLORLAK, a.s., Staré Město <sup>1)</sup>	24	24	188	12.89
SYNPO, a.s., Pardubice	12	27	51	52.58
EPISPOL, a.s., Ústí nad Labem	2	2	2	100.00
SPOLCHEMIE, a.s., Ústí nad Labem	1	1	1	100.00
OSTALAK, a.s., v konkurzu, Ústí nad Labem	1	1	1	100.00
	<b>5,672</b>			
Allowances for impairment (Note 12)	(3,956)			
	<b>1,716</b>			

<sup>1)</sup> The companies are subsidiaries of the Group through the Group's managerial rights.

Summary financial information for unconsolidated subsidiary undertakings

**At 31 December 2004 and for the year 2004**

Name	Net book amount CZK m	Equity CZK m	Total assets CZK m	Revenues CZK m	Profit/(loss) before tax CZK m
IPB REAL INVESTMENT, a.s.	-	(513)	307	18	(19)
Autoklub Bohemia Assistance, a.s.	67	94	235	1,009	24
CRF Praha a.s. v likvidaci <sup>2)</sup>	-	-	-	-	-
První východní a.s.	5	9	9	36	(27)
Global Investment a.s.	52	744	32	32	32
TCHECOMALT GROUP, a.s	-	(1,033)	1,138	4,217	(237)
ARTA REAL, k.s.	50	167	182	303	120
CZ CREDIT REAL, k.s.	118	55	263	46	138
IMOB a.s. <sup>1)</sup>	-	47	52	53	34
BH CAPITAL, a.s.	402	1,016	1,021	1,067	57
SYNPO, a.s.	12	(71)	94	128	9
EPISPOL, a.s.	300	300	737	25	(8)
SPOLCHEMIE, a.s.	1	1	1	-	-
OSTALAK, a.s., v konkurzu <sup>3)</sup>	-	-	-	-	-
	<b>1,007</b>				

Notes: Data has been drawn from the companies' preliminary unaudited financial statements as at 31 December 2004, unless stated otherwise.

<sup>1)</sup> The company is a subsidiary of the Group through the Group's managerial rights.

<sup>2)</sup> The company's financial statements are not available.

<sup>3)</sup> The company's financial statements are not available, the company has been in bankruptcy proceedings since 1998.

At 31 December 2003 and for the year 2003

Name	Net book amount CZK m	Equity CZK m	Total assets CZK m	Revenues CZK m	Profit/(loss) before tax CZK m
ADEX, a.s. <sup>1)</sup>	-	-	-	-	-
VSM ČR, a.s., v likvidaci <sup>2)</sup>	-	-	-	-	-
IPB REAL INVESTMENT, a.s.	-	(493)	328	881	391
Autoklub Bohemia Assistance, a.s.	77	70	281	879	(39)
CRF Praha a.s. v likvidaci <sup>2)</sup>	-	-	-	-	-
KRÁLOVOPOLSKÁ, a.s.	24	411	673	2,205	2,167
První východní a.s.	30	36	96	7	-
TCHECOMALT GROUP, a.s. <sup>2)</sup>	-	(796)	1,576	39	(257)
TRUSTFIN, a.s.	-	(1,140)	306	176	(167)
ZVI a.s.	-	(343)	353	94	(130)
UNIPLLET Třebíč, a.s.	-	131	338	363	(111)
IMOB a.s.	-	31	39	53	218
BH CAPITAL, a.s.	402	959	965	1,895	47
ČKD PRAHA HOLDING, a.s.	542	267	305	252	69
Baska, a.s. v likvidaci <sup>3)</sup>	101	-	-	-	-
COOP Banka, a.s. v likvidaci	500	(2,739)	80	231	5
EKOAGROBANKA, a.s. v likvidaci	-	(7,025)	16	745	147
COLORLAK, a.s.	24	249	442	501	17
SYNPO, a.s.	12	71	114	107	3
EPISPOL, a.s.	2	1	85	4	(1)
SPOLCHEMIE, a.s.	1	1	1	-	-
OSTALAK, a.s., v konkurzu <sup>4)</sup>	1	-	-	-	-
	<b>1,716</b>				

Notes: Data has been drawn from the companies' audited financial statements as at 31 December 2003, unless stated otherwise.

<sup>1)</sup> The company was deleted from the Commercial Register at 30 April 2004.

<sup>2)</sup> The company's financial statements are not available.

<sup>3)</sup> The company's financial statements are not available, deletion from the Commercial Register proposed.

<sup>4)</sup> The company's financial statements are not available, the company has been in bankruptcy proceedings since 1998.

**(b) Investments in unconsolidated associated undertakings**

**At 31 December 2004**

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Share %
Výzkumný a zkušební letecký ústav, a.s., Praha	291	357	751	47.55
BRNO INN, a.s., Brno	24	62	240	25.83
GALILEO REAL, k.s., Praha	1,032	900	2,900	31.03
INTEGRA, a.s., Praha	32	171	839	20.41
Lesní společnost Hradec Králové, a.s.	38	143	679	21.13
Jihočeské lesy České Budějovice, a.s., Nové Hradky	38	255	700	36.36
Jihočeské papírny, a.s., Větrní	94	176	452	38.89
Českomoravská lékárnická platebna, a.s., v likvidaci, Olomouc	-	17	60	28.58
Výzkumný ústav pivovarský a sladařský, a.s., Praha	8	23	69	32.93
1. českoamerická realitní společnost a.s. v likvidaci, Praha	99	99	463	21.37
H-SYSTÉM a.s., v konkurzu, Praha	438	433	1,738	24.89
H-SYSTÉM LUXUS a.s., Praha	113	109	440	24.78
	<b>2,207</b>			
Allowances for impairment (Note 12)	(873)			
	<b>1,334</b>			

At 31 December 2003

Name, registered office	At cost CZK m	Nominal value CZK m	Share capital CZK m	Share %
ARTA REAL, k.s., Praha	1,606	1,400	2,900	48.28
Výzkumný a zkušební letecký ústav, a.s., Praha	290	357	751	47.55
BRNO INN, a.s., Brno	24	62	240	25.83
CZ CREDIT REAL, k.s., Praha	1,032	900	2,900	31.03
GALILEO REAL, k.s., Praha	1,032	900	2,900	31.03
INTEGRA, a.s., Praha	32	171	839	20.41
Lesní společnost Hradec Králové, a.s.	38	144	679	21.13
MUZO, a.s., Praha	274	21	102	20.86
Jihočeské lesy České Budějovice, a.s., Nové Hrady	38	255	700	36.36
Jihočeské papírny, a.s., Větrní	94	951	2,444	38.89
VÁLCOVNY PLECHU, a.s., Frýdek-Místek	292	292	688	42.39
Inv. fond obchodu, cest. ruchu a služeb, a.s., Praha	261	237	595	39.84
Výzkumný ústav pivovarský a sladařský, a.s., Praha	8	23	69	32.93
1. českoamerická realitní společnost a.s. v likvidaci, Praha	99	99	463	21.37
H-SYSTÉM a.s., v konkurzu, Praha	438	433	1,738	24.89
H-SYSTÉM LUXUS a.s., Praha	113	109	440	24.78
	<b>5,671</b>			
Allowances for impairment (Note 12)	(3,596)			
	<b>2,075</b>			

## 9 LONG-TERM INTANGIBLE AND TANGIBLE FIXED ASSETS

### Long term intangible fixed assets

	Software CZK m	Other CZK m	Total CZK m
<b>At 1 January 2003</b>			
Cost	321	210	531
Accumulated amortisation and impairment	(270)	(192)	(462)
<b>Net book amount</b>	<b>51</b>	<b>18</b>	<b>69</b>

<b>Year ended 31 December 2003</b>			
Opening net book amount	51	18	69
Additions	15	7	22
Disposals	-	(4)	(4)
Amortisation charge	(32)	(5)	(37)
<b>Closing net book amount</b>	<b>34</b>	<b>16</b>	<b>50</b>

<b>At 31 December 2003</b>			
Cost	336	206	542
Accumulated amortisation and impairment	(302)	(190)	(492)
<b>Net book amount</b>	<b>34</b>	<b>16</b>	<b>50</b>

<b>Year ended 31 December 2004</b>			
Opening net book amount	34	16	50
Change in the Group (Note 1)	-	28	28
Additions	6	3	9
Disposals	-	(8)	(8)
Amortisation charge	(15)	(9)	(24)
<b>Closing net book amount</b>	<b>25</b>	<b>30</b>	<b>55</b>

<b>At 31 December 2004</b>			
Cost	338	235	573
Accumulated amortisation and impairment	(313)	(205)	(518)
<b>Net book amount</b>	<b>25</b>	<b>30</b>	<b>55</b>

Long term operating tangible fixed assets

	Land CZK m	Buildings CZK m	Equipment CZK m	Other CZK m	Assets in the course of construction and paid advances CZK m	Total CZK m
<b>At 1 January 2003</b>						
Cost	498	2,448	2,586	17	122	5,671
Accumulated depreciation and impairment	-	(1,122)	(2,202)	(6)	(7)	(3,337)
<b>Net book amount</b>	<b>498</b>	<b>1,326</b>	<b>384</b>	<b>11</b>	<b>115</b>	<b>2,334</b>

<b>Year ended 31 December 2003</b>						
Opening net book amount	498	1,326	384	11	115	2,334
Additions	1	119	235	-	111	466
Disposals	(1)	(33)	(8)	-	-	(42)
Impairment charge	-	(2)	-	-	(5)	(7)
Depreciation charge	-	(61)	(208)	(1)	-	(270)
<b>Closing net book amount</b>	<b>498</b>	<b>1,349</b>	<b>403</b>	<b>10</b>	<b>221</b>	<b>2,481</b>

<b>At 31 December 2003</b>						
Cost	498	2,467	2,565	17	223	5,770
Accumulated depreciation and impairment	-	(1,118)	(2,162)	(7)	(2)	(3,289)
<b>Net book amount</b>	<b>498</b>	<b>1,349</b>	<b>403</b>	<b>10</b>	<b>221</b>	<b>2,481</b>

<b>Year ended 31 December 2004</b>						
Opening net book amount	498	1,349	403	10	221	2,481
Change in the Group (Note 1)	252	643	31	-	4	930
Additions	-	95	117	1	720	933
Disposals	(2)	(22)	(6)	(1)	(720)	(751)
Impairment charge	-	(2)	-	-	-	(2)
Depreciation charge	-	(85)	(121)	(1)	-	(207)
<b>Closing net book amount</b>	<b>748</b>	<b>1,978</b>	<b>424</b>	<b>9</b>	<b>225</b>	<b>3,384</b>



<b>At 31 December 2004</b>						
Cost	748	3,191	2,632	16	227	6,814
Accumulated depreciation and impairment	-	(1,213)	(2,208)	(7)	(2)	(3,430)
<b>Net book amount</b>	<b>748</b>	<b>1,978</b>	<b>424</b>	<b>9</b>	<b>225</b>	<b>3,384</b>

### Long term non-operating tangible fixed assets

	Land CZK m	Buildings CZK m	Equipment CZK m	Other CZK m	Total CZK m
<b>At 1 January 2003</b>					
Cost	50	266	6	1	323
Accumulated depreciation and impairment	-	(9)	(6)	(1)	(16)
<b>Net book amount</b>	<b>50</b>	<b>257</b>	<b>-</b>	<b>-</b>	<b>307</b>

<b>Year ended 31 December 2003</b>					
Opening net book amount	50	257	-	-	307
Additions	19	217	-	-	236
Disposals	(1)	(167)	-	-	(168)
Depreciation charge	-	(177)	-	-	(177)
<b>Closing net book amount</b>	<b>68</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>198</b>

<b>At 31 December 2003</b>					
Cost	68	142	6	1	217
Accumulated depreciation and impairment	-	(12)	(6)	(1)	(19)
<b>Net book amount</b>	<b>68</b>	<b>130</b>	<b>-</b>	<b>-</b>	<b>198</b>

<b>Year ended 31 December 2004</b>					
Opening net book amount	68	130	-	-	198
Additions	-	-	-	-	-
Disposals	(23)	-	-	-	(23)
Impairment charge	(5)	-	-	-	(5)
Depreciation charge	-	(53)	-	-	(53)
<b>Closing net book amount</b>	<b>40</b>	<b>77</b>	<b>-</b>	<b>-</b>	<b>117</b>

At 31 December 2004					
Cost	45	91	6	-	142
Accumulated depreciation and impairment	(5)	(14)	(6)	-	(25)
Net book amount	40	77	-	-	117

The Group has assets under finance lease contracts with a cost of CZK 6 million as at 31 December 2004 (2003: CZK 3 million).

Moveable fixed assets that were pledged to the Group as collateral for granted loans, assets under charge as security over its liabilities or liabilities of third parties were not recognised as at 31 December 2004 and 31 December 2003.

## 10 OTHER ASSETS

	31 December 2004 CZK m	31 December 2003 CZK m
Receivable from State due to loss of the Agency for the year 2002	58,031	76,264
Receivable from State due to loss of the Agency for the year 2003	5,224	5,224
Receivable from State due to loss of the Agency for the year 2004	1,319	-
Receivables from State due to loss - total	64,574	81,488
Receivable from NPF due to loss of Group companies	462	922
Receivables from unsettled securities transactions	1,968	2,889
Operating advances granted	39	40
Settlement clearance accounts - debit balances	483	530
Estimated receivables	22	12
Advance for transfer of receivables from health insurance companies	-	2,062
Other receivables	5,512	11,134
Derivatives (Note 28(c))	97	182
Inventories	602	339
	<b>73,759</b>	<b>99,598</b>
Allowances for impairment (Note 12)	(2,563)	(6,454)
	<b>71,196</b>	<b>93,144</b>

The reported loss of the Agency for the year 2004 of CZK 3,451 million will be covered by the Agency's reserve fund of CZK 2,036 million (Note 19), by MF ČR CZK 1,319 million and by the NPF CZK 96 million.

The reported loss of the Agency for the year 2003 of CZK 18,182 million was partly covered by the Agency's reserve fund of CZK 12,168 million (Note 19) and by the NPF CZK 790 million.

Due to the loss of the Agency incurred in 2003 and to the remaining part of the loss of the Agency of CZK 58,031 million incurred in 2002, the receivable from the State (MF ČR) of CZK 5,224 million will be settled by the proceeds from an issue of State bonds under the State bond programme for coverage of the Agency's loss.

Receivables from the State and the NPF for payment of losses do not bear interest and are not discounted to net present value, because it is not possible to determine their maturity (Note 29).

## 11 PREPAYMENTS AND ACCRUED INCOME

	31 December 2004 CZK m	31 December 2003 CZK m
Prepayments	18	8
Accrued income	41	1
	<b>59</b>	<b>9</b>

## 12 ALLOWANCES, PROVISIONS AND WRITE OFFS

The Group had the following provisions and allowances for assets at risk:

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Provisions</b>		
Provisions for loans (Note 5)	2,176	2,321
Provisions for guarantees (Note 20)	410	778
Provision for "black" and "other" items transferred from ČSOB according to restructuring plan (Note 20)	-	20
Provision for transfer of receivables from health insurance companies (Note 20)	-	884
Other provisions	8	3
	<b>2,594</b>	<b>4,006</b>
<b>Allowances</b>		
Impaired loans to customers (Note 5) 1)	90,459	95,309
Unconsolidated equity investments (Note 8)	3,501	7,552
Other assets (Note 10)	2,563	6,454
Land and buildings (Note 9)	5	2
	<b>96,528</b>	<b>109,317</b>

<sup>1)</sup> Includes allowances for impaired loans provided to related parties (Note 5(b)).

Due to the Agreement on settlement between ČF and ČSOB (Note 5(a)), ČF's income relating to the Stabilisation Programme in 2003 and 2004 significantly exceeds its expenses and the expected potential future losses of the Stabilisation Programme. Therefore ČF does not expect to exercise the guarantee arising from the agreements concluded with ČKA, which in term is guaranteed by the NPF and has therefore created allowances for the assets included in the Stabilisation Programme as at 31 December 2004 and 2003.

The movements in provisions can be analysed as follows:

	Provisions for overdue receivables CZK m	General provisions for standard loans CZK m	Provisions for "ring fenced" asset guarantees - ČS CZK m	Provisions for "black" and "other" assets <sup>1)</sup> CZK m	Provision for offshore structures CZK m	Provisions for Nova Hut', a.s. bonds liabilities CZK m	Provision for transfer of receivables from health insurance companies <sup>1)</sup> CZK m	Other provisions CZK m	Total CZK m
<b>1 January 2003</b>	<b>5,136</b>	<b>457</b>	<b>1,993</b>	<b>124</b>	<b>29,500</b>	<b>1,173</b>	<b>-</b>	<b>2</b>	<b>38,385</b>
Creation	-	-	-	-	-	-	884	3	887
Release	(2,815)	(457)	(1,215)	(104)	(29,500)	(1,173)	-	(2)	(35,266)
<b>31 December 2003</b>	<b>2,321</b>	<b>-</b>	<b>778</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>884</b>	<b>3</b>	<b>4,006</b>
Creation	-	-	-	-	-	-	-	6	6
Release	(145)	-	(368)	(20)	-	-	(884)	(1)	(1,418)
<b>31 December 2004</b>	<b>2,176</b>	<b>-</b>	<b>410</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>2,594</b>

<sup>1)</sup> Receivables of health insurance companies (Note 20) were transferred to the Agency and recorded in the balance sheet as at 31 December 2004. Provisions created for these assets have been released. These receivables are covered by allowances (Note 5).

On 1 March 2000 the Bank signed a restructuring and guarantee agreement relating to the transfer of the credit risk associated with the low-quality balance sheet and off balance sheet assets of Česká Spořitelna, a.s., and the companies CORFINA, a.s., CORFINA TRADE, s.r.o., and CF Danube Leasing, s.r.o., (hereafter "ČS group"). During the year 2001, Česká spořitelna, a.s., exercised a put option with the Group.

In 2004 selected assets from ČS group were transferred to the Group amounting to CZK 189 million (2003: CZK 1,894 million) in accordance with the above agreement. The Group has paid CZK 19 million (2003: CZK 56 million) as motivation fees for this transfer. The Group created allowances for the transferred assets amounting to CZK 180 million (2003: CZK 304 million) which are included in allowances for impaired loans and released specific provisions for the same amount. Specific provisions for guarantees relating to other transfers expected from

Česká spořitelna, a.s., amounted to CZK 410 million as at 31 December 2004 (31 December 2003: CZK 778 million).

Komerční banka, a.s., (hereinafter “KB”) and the Group concluded a guarantee agreement on 29 December 2000. The subject of the agreement was a guarantee over risk assets of KB up to a maximum amount of CZK 20 billion, valid until 31 December 2003.

During 2003 the Group exercised its option to require KB to transfer selected assets to the Group. In accordance with the guarantee agreement, selected assets amounting to CZK 76 million were transferred to the Group in 2004. The Group created allowances for the transferred assets of CZK 37 million, which are included in allowances for impaired loans.

Upon the final settlement of the guarantee agreement with KB, the Agency paid CZK 494 million to KB under the guarantee and the same amount was subsequently paid to the Agency under the corresponding guarantee from the NPF.

The movements in allowances can be analysed as follows:

	Impaired loans to banks CZK m	Impaired loans to customers CZK m	Investments in subsidiaries and associates CZK m	Lands and buildings CZK m	Other assets CZK m	Total CZK m
At 31 December 2002	406	143,011	5,344	-	4,522	153,283
Additions	-	12,039	6,534	2	3,669	22,244
Usage	-	(42,331)	(4,326)	-	(1,578)	(48,235)
Release	(406)	(17,035)	-	-	(159)	(17,600)
Write backs <sup>1)</sup>	-	(375)	-	-	-	(375)
At 31 December 2003	-	95,309	7,552	2	6,454	109,317
Additions	-	11,601	274	5	839	12,719
Usage	-	(12,315)	(3,912)	(2)	(2,641)	(18,870)
Release	-	(3,892)	(413)	-	(2,089)	(6,394)
Write backs <sup>1)</sup>	-	(244)	-	-	-	(244)
At 31 December 2004	-	90,459	3,501	5	2,563	96,528

<sup>1)</sup> The written back allowances for classified loans of CZK 244 million for the year 2004 (for the year 2003: CZK 375 million) represent the release of the difference between nominal and purchase cost of loans, recorded as allowances when originated, in accordance with the existing methodology.

### Creation of allowances

The amount of allowances created is based upon the identified risk, taking into consideration both the realisable value of collateral accepted and a special-purpose reserve fund (Note 19). Allowances are created against loans, securities and investments on an individual basis.

Allowances to loans:

	Gross impaired amounts receivable at 31 December 2004 CZK m	Quarterly average of gross impaired amounts receivable for the year 2004 CZK m	Allowances at 31 December 2004 CZK m
Watch	607	752	109
Substandard	899	11,509	126
Doubtful	7,100	8,034	3,280
Loss	109,449	115,944	86,944
	<b>118,055</b>		<b>90,459</b>

Write-offs and recovery of amounts written off previously:

	For the year 2004		For the year 2003	
	Amounts written off CZK m	Recovery of amounts written off previously CZK m	Amounts written off CZK m	Recovery of amounts written off previously CZK m
State sector	1,895	-	224	-
Private clients	7,793	36	4,469	26
	<b>9,688</b>	<b>36</b>	<b>4,693</b>	<b>26</b>

Bad debts are written off against established provisions, allowances or directly expensed in the case that management of the Group asserts their chance of recoverability to be nil.

### 13 DUE TO BANKS

	31 December 2004 CZK m	31 December 2003 CZK m
Due to central banks	13,179	14,734
Due to other banks	41,228	85,512
	<b>54,407</b>	<b>100,246</b>

### 14 DUE TO CUSTOMERS

	31 December 2004 CZK m	31 December 2003 CZK m
Amounts due to governmental entities	6,149	1,299
Amounts due to private customers	3,077	3,956
Other short-term payables to clients	251	114
	<b>9,477</b>	<b>5,369</b>

Deposits from related parties

	31 December 2004 CZK m	31 December 2003 CZK m
Unconsolidated subsidiary undertakings	-	185

The management of the Group considers that the deposits from related parties were accepted under substantially the same terms and conditions, including interest rates, as were prevailing at the same time for comparable transactions with other customers and did not, in the opinion of management, involve more than normal interest rate and liquidity risk or present other unfavorable features.

## 15 LIABILITIES FROM DEBT SECURITIES

	31 December 2004 CZK m	31 December 2003 CZK m
Bonds issued	30,254	32,718
less: own bonds held	(200)	(200)
Own T-bills issued	4,972	4,977
Promissory notes and bills of exchange	5,022	4,864
	<b>40,048</b>	<b>42,359</b>

As at 31 December 2004, the Group had outstanding short-term debt securities issued (deposit bills) redeemable within one year of CZK nil (31 December 2003: CZK 107 million) and T-bills issued redeemable within one year of CZK 4,972 million (31 December 2003: CZK 4,977 million). The long-term and medium-term bonds issued comprise:

Issue	Notional amount CZK m	Maturity	Interest rate
3.	5,000	17 March 2005	6-month PRIBOR + 0.125% p.a.
4.	5,000	10 June 2007	5.05% p.a.
5.	10,000	28 June 2005	6-month PRIBOR + 0.09% p.a.
6.	5,000	5 November 2010	4.00% p.a.
7.	5,000	17 September 2007	4.00% p.a.
	<b>30,000</b>		

## 16 SUBORDINATED LIABILITIES

The Group had no subordinated debt as at 31 December 2004 and as at 31 December 2003.

## 17 OTHER LIABILITIES

	31 December 2004 CZK m	31 December 2003 CZK m
Payable to NPF	448	4,838
Other payables	1,403	733
Estimated payables	947	939
Tax payable	10	3
Deferred tax liability	38	-
Social institutions clearance account (due)	26	21
Derivative financial instruments (Note 28(c))	135	121
	<b>3,007</b>	<b>6,634</b>

The Group records a receivable (liability) from the NPF (Notes 10 and 17) in accordance with the agreements concluded with the NPF on covering expenses and losses of subsidiaries. This transaction has no impact on the results of the Group.

Other liabilities of the Group as at 31 December 2004 and as at 31 December 2003 do not include any overdue liabilities for social insurance, contribution to the state employment policy or liabilities for health insurance.

## 18 ACCRUALS AND DEFERRED INCOME

	31 December 2004 CZK m	31 December 2003 CZK m
Accruals	56	85
Deferred income	40	52
	<b>96</b>	<b>137</b>

## 19 EQUITY AND PROFIT DISTRIBUTION

### Share capital

	31 December 2004 CZK m	31 December 2003 CZK m
Issued and paid	5,950	5,950

Czech law requires that the State guarantees the Agency's liabilities and thus pays losses incurred by the Agency. The claim for settling the loss of the current period is recorded as a receivable from the State against the Capital fund, and consequently total assets are



increased. The settlement of the loss from the Capital fund is recorded in the following accounting period.

The Bank, the legal predecessor of the Agency, has received an official interpretation of the relevant accounting legislation from the MF ČR (in its capacity as the body responsible for setting accounting standards in the Czech Republic), which was issued having regard to the State's general guarantee to cover losses of the Agency. In accordance with this interpretation, the Group has set aside, within the statutory reserve fund that forms part of the equity of the Group, an amount of CZK 7,192 million (at 31 December 2003: CZK 9,228 million) to cover expected losses on certain specific loans and no allowances have been separately reflected for these expected losses. This reserve fund was contributed to by the NPF. This interpretation was reconfirmed to the Group by the Ministry of Finance on 27 October 2003. The Group released an amount of CZK 2,036 million (in the year 2003: CZK 12,168 million) to cover losses related to the old block of loans. The disclosed loss from the old block loans (Note 2(n)) for the period will be covered by the release from the reserve fund.

#### **Revaluation reserve**

Fair value of the cash flow hedging instruments is deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income (Note 28(c)).

## 20 CONTINGENCIES AND COMMITMENTS

	31 December 2004 CZK m	31 December 2003 CZK m
<b>Guarantees granted</b>		
On behalf of clients of the Group	1,744	1,916
On behalf of ČS group clients	410	628
On behalf of KB clients	-	5,862
<b>Total</b>	<b>2,154</b>	<b>8,406</b>
Specific provisions for guarantees (Note 12)	(410)	(778)
<b>Net value of guarantees granted</b>	<b>1,744</b>	<b>7,628</b>
Co-acceptances given	-	84
<b>Loan commitments made</b>		
Irrevocable	-	356
Collaterals given	1,746	1,654
Commitments on the cession of assets		
ČSOB "black" assets from IPB Restructuring Plan	-	20
Health insurance companies' receivables	-	2,946
Specific provisions to ČSOB assets from IPB Restructuring Plan	-	(20)
Specific provisions to ceded receivables from health insurance companies	-	(884)
	-	<b>2,062</b>
<b>Guarantees received</b>		
From the State	2,066	4,254
From NPF	15,428	26,666
From other entities	4,198	6,757
	<b>21,692</b>	<b>37,677</b>
<b>Irrevocable loan commitments accepted</b>	<b>38,995</b>	<b>29,466</b>
	31 December 2004 CZK m	31 December 2003 CZK m
<b>Assets placed in custody</b>		
Shares	458	1,225
<b>Assets in safe</b>		
Shares	155	83
<b>Assets under custody</b>		
Other	433	1,329

## 21 INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 CZK m	2003 CZK m
Interest on inter-bank transactions	58	706
Interest on loans to customers and State	3,412	4,935
Interest and discount on debt securities and other financial transactions	350	1 550
	<b>3,820</b>	<b>7,191</b>

An estimated amount of CZK 3,336 million representing interest income on impaired loans was included in 2004 (for the year 2003: CZK 3,262 million). Overdue penalty interest of CZK 26 378 million for classified loans as at 31 December 2004 (as at 31 December 2003: CZK 24 457 million) was not recorded in revenues. The penalty interest is legally enforceable and has not been forgiven.

Based on the Supreme Court decision from 24 March 2004, sp. Zn. 35 Odo 101/2002 penalty interest on overdue interest cannot be accounted for unless there is a contractual agreement between a creditor and a debtor establishing that the overdue interest is capitalised to principal. This ruling is contrary to a previous Supreme Court decision on this matter. The legal interpretation (e.g. from when this ruling should be applied amongst other issues) of the impact of this ruling is still being considered by the Group and banking sector. Therefore the Group has continued to account for penalty interest on overdue interest for the year ended 31 December 2004. It is possible that the legal interpretation of the above decision, when available, would require adjustments resulting from this ruling, which could be applied retrospectively. However, the management of the Group does not expect any material impact on the equity at 31 December 2004 or the results for the year then ended.

## 22 INTEREST PAYABLE AND SIMILAR EXPENSE

	2004 CZK m	2003 CZK m
Interest on inter-bank transactions	3,084	4,580
Interest on deposits from customers and state	185	371
Interest and discount on debt securities issued	1,485	1,743
	<b>4,754</b>	<b>6,694</b>

## 23 INCOME FROM SHARES AND OTHER INTERESTS

	2004 CZK m	2003 CZK m
Income from unconsolidated associated undertakings	24	36
Income from unconsolidated subsidiaries	2	-
Income from shares and other interests	7	17
	<b>33</b>	<b>53</b>

## 24 GAINS LESS LOSSES FROM FINANCIAL TRANSACTIONS

	2004 CZK m	2003 CZK m
Gains less losses from securities transactions	(160)	(33,196)
Gains less losses from foreign currency transactions	(172)	(234)
Gains less losses from trading derivatives	(1)	156
Gains less losses from other transactions	410	102
	<b>77</b>	<b>(33,172)</b>

The Bank signed restructuring and guarantee agreement with ČS Group (Note 12) relating to the transfer of the credit risk associated with low-quality balance sheet and off-balance sheet assets.

A so called “motivation fee” is paid based on the contract. The motivation fee is calculated as 12% of proceeds from interest and fees received by ČS Group from clients from loans under the above mentioned guarantee before their transfer to the Group and 12% from the proceeds from loan principal received by ČS Group before their transfer to the Group. The first part of the motivation fee is paid by the Group quarterly, the second part is paid at the date of transfer to the Group. This motivation fee of CZK nil (for the year 2003: CZK 57 million) is expensed and included in the Gains less losses from other transactions.

The Group has to pay an “interest fee” in accordance with the above mentioned agreement for the management of the assets under the Agency’s guarantee. This interest fee in 2004 of CZK 91 thousand (for the year 2003: CZK 34 million) is included in the Gains less losses from other transactions stated above and it is paid by the Group quarterly.

The motivation and interest fee are not capitalised because they do not meet the criteria to be recorded as assets as they do not bring any future benefits to the Group.

## 25 ADMINISTRATIVE EXPENSES

	2004 CZK m	2003 CZK m
Rent and lease charges	38	36
Staff costs	1,068	917
Audit, tax and legal advisory services	111	154
of which paid to Auditor:		
- audit	11	-
- tax advisory	0	-
- other advisory	2	-
Other administration expenses	1,194	873
	<b>2,411</b>	<b>1,980</b>

Staff costs can be analysed as follows:

	2004 CZK m	2003 CZK m
Salaries and emoluments	785	672
Social security and other social costs	270	235
Emoluments of Supervisory Boards	13	10
	<b>1,068</b>	<b>917</b>

Emoluments of Board of Directors and statutory representatives of the Group for their executive role of CZK 51 million (for year 2003: CZK 39 million) are included in salaries and emoluments. The emoluments for 2004 of CZK 51 million include compensation payments totalling CZK 10 million, which were paid to former Board members in 2004.

Staff statistics:

	2004	2003
Average number of employees of the Group	2,351	1,871
Number of members of the Board of Directors of the Group and statutory representatives	22	20
Number of members of the Supervisory Board of the Group	42	32

The increase in employees of the Group in 2004 is attributable largely to the consolidation of Explosia for the first time in that year.

## 26 OTHER INCOME AND EXPENSES

	2004 CZK m	2003 CZK m
<b>Other income</b>		
Fee and commission income	25	462
Other operating income	6,547	8,897
Release of allowances and provisions for loans and guarantees, income from receivables already written-off	12,500	17,132
Release of allowances for participating interest with significant and controlling influence	413	-
Release of allowances and provisions for long-term tangible and intangible fixed assets	16	-
	<b>19,501</b>	<b>26,491</b>
<b>Other expenses</b>		
Fee and commission expense	39	64
Other operating expense	3,757	4,238
Depreciation of long-term tangible and intangible fixed assets	279	222
Write-offs, additions and utilisation of allowances and provisions for loans and guarantees	17,613	31,945
Loss from the transfer of participating interest with significant and controlling influence and addition to allowances to participating interest with significant and controlling influence	274	4,829
Additions and utilisation of other provisions	40	(30,978)
	<b>22,002</b>	<b>10,320</b>

## 27 TAXATION

There was no tax liability of the Group in 2004. A deferred tax asset of the Group of CZK 6,929 million (at 31 December 2003: CZK 4,481 million) has not been recognised as it is not probable that future taxable profit will be available against which the unused tax credits can be utilised. Explosia recognised deferred tax liability of CZK 38 million as of 31 December 2004.

## 28 FINANCIAL RISKS

### (a) Strategy in using financial instruments

Based on the Group's specific status, its financial risk management function focuses on developing procedures, establishing methods and setting limits, and monitoring the Group's adherence to the policies.

The Group's independent analysis of individual clients, guarantors and discussions of business cases is carefully considered in developing and updating the financial risk procedures.

Furthermore reports connected to financial risk management are prepared. The control of financial risk management is reviewed by internal audit.

## (b) Credit risk

The Group's credit risk management policy is based on the Group's internal rating system.

Through the use of internal ratings, the Group can assess the degree of credit risk associated with clients. The rating is determined by the subject's ability to meet its short term and long term obligations. Monitoring of clients' and their guarantors' financial situation is an essential element of the Group's credit risk management.

### Geographical segmentation

#### At 31 December 2004

Assets	Domestic CZK m	European union CZK m	Other Europe CZK m	Other CZK m	Total CZK m
Due from banks	3,348	8	-	1	3,357
Due from customers	40,152	27	10	-	40,189
Securities available-for-sale	6,255	-	-	-	6,255
Investments in subsidiaries & associates	3,873	-	-	-	3,873
Other assets	74,500	271	33	12	74,816
<b>Total assets</b>	<b>128,128</b>	<b>306</b>	<b>43</b>	<b>13</b>	<b>128,490</b>

#### At 31 December 2003

Assets	Domestic CZK m	European union CZK m	Other Europe CZK m	Other CZK m	Total CZK m
Due from banks	8,171	20	1	2	8,194
Due from customers	56,843	-	111	-	56,954
Securities available-for-sale	13,475	-	-	-	13,475
Investments in subsidiaries & associates	4,777	-	-	-	4,777
Other assets	95,631	171	80	7	95,889
<b>Total assets</b>	<b>178,897</b>	<b>191</b>	<b>192</b>	<b>9</b>	<b>179,289</b>

## Business segmentation

### At 31 December 2004

Assets	Private subjects CZK m	State institutions CZK m	Municipalities CZK m	Other CZK m	Total CZK m
Due from banks	3,105	252	-	-	3,357
Due from customers	36,203	2,038	38	1,910	40,189
Securities available-for-sale	6,255	-	-	-	6,255
Investments in subsidiaries & associates	3,873	-	-	-	3,873
Other assets	8,131	66,685	-	-	74,816
<b>Total assets</b>	<b>57,567</b>	<b>68,975</b>	<b>38</b>	<b>1,910</b>	<b>128,490</b>

### At 31 December 2003

Assets	Private subjects CZK m	State institutions CZK m	Municipalities CZK m	Other CZK m	Total CZK m
Due from banks	6,717	1,477	-	-	8,194
Due from customers	50,219	6,673	62	-	56,954
Securities available-for-sale	13,475	-	-	-	13,475
Investments in subsidiaries & associates	4,777	-	-	-	4,777
Other assets	9,650	86,239	-	-	95,889
<b>Total assets</b>	<b>84,838</b>	<b>94,389</b>	<b>62</b>	<b>-</b>	<b>179,289</b>

## (c) Derivative financial instruments

The Group has outstanding trading derivative contracts, which can be analysed as follows:

	31 December 2004 CZK m	31 December 2003 CZK m
Trading agreements	0	32
Cash flow hedging agreements	97	150
<b>Financial derivatives with positive fair value (Note 10)</b>	<b>97</b>	<b>182</b>
	31 December 2004 CZK m	31 December 2003 CZK m
Trading agreements	0	2
Cash flow hedging agreements	135	119
<b>Financial derivatives with negative fair value (Note 17)</b>	<b>135</b>	<b>121</b>



	31 December 2004			31 December 2003		
	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m
Trading agreements						
Currency derivatives						
Currency swaps	-	-	-	731	32	2

Change of the fair value of trading derivatives is recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific Czech accounting rules and are therefore presented above as trading derivatives with fair value gains and losses recognised in the income statement.

	31 December 2004			31 December 2003		
	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m	Nominal value CZK m	Fair value positive CZK m	Fair value negative CZK m
Cash flow hedging agreements						
Interest rate derivatives						
Interest rate swaps	10,000	97	135	10,000	150	119

Fair value gains and losses of the above qualifying cash flow hedging instruments are deferred in the revaluation reserve in equity until the effects of the hedged item are recognised in income.

The tables above provide a detailed breakdown of the nominal and notional amounts and the fair value of the Group's derivative financial instruments outstanding at the year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group to transfer, modify or reduce its foreign exchange and interest rate risks.

The nominal or notional amounts provide a basis for volume comparison with instruments recognised on the balance sheet but do not indicate the Group's exposure to credit or price risk.

**(d) Currency risk**

The Group takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates, especially EUR and USD. The net asset or liability represents the Group's exposure to movements in the exchange rate of each foreign currency and the Czech Crown. The exposure is actively managed through FX swaps. The Group actively monitors its limits for managing its currency risk.

The table below summarises the Group's currency exposure. Included in the table are the Group's assets, liabilities and equity stated at their carrying amounts, categorised by currency.

**As at 31 December 2004**

<b>Assets</b>	<b>CZK CZK m</b>	<b>EUR CZK m</b>	<b>USD CZK m</b>	<b>GBP CZK m</b>	<b>Other CZK m</b>	<b>Total CZK m</b>
Due from banks	2,880	322	153	2	-	3,357
Due from customers	39,920	77	192	-	-	40,189
Debt securities	442	-	73	-	-	515
Other assets	83,836	263	24	1	305	84,429
	<b>127,078</b>	<b>662</b>	<b>442</b>	<b>3</b>	<b>305</b>	<b>128,490</b>
<b>Liabilities</b>						
Due to banks	54,109	144	154	-	-	54,407
Due to customers	8,889	352	236	-	-	9,477
Liabilities from debt securities	40,048	-	-	-	-	40,048
Provisions	2,594	-	-	-	-	2,594
Other liabilities	2,818	275	10	-	-	3,103
	<b>108,458</b>	<b>771</b>	<b>400</b>	<b>-</b>	<b>-</b>	<b>109,629</b>
Balance sheet net	18,620	(109)	42	3	305	18,861
Net off-balance sheet assets/(liabilities)	-	-	-	-	-	-
<b>Net open currency position</b>	<b>18,620</b>	<b>(109)</b>	<b>42</b>	<b>3</b>	<b>305</b>	<b>18,861</b>

As at 31 December 2003

Assets	CZK CZK m	EUR CZK m	USD CZK m	GBP CZK m	Other CZK m	Total CZK m
Due from banks	7,411	541	228	1	13	8,194
Due from customers	55,976	579	386	-	13	56,954
Debt securities	1,437	-	83	-	-	1,520
Other assets	112,372	220	25	4	-	112,621
	<b>177,196</b>	<b>1,340</b>	<b>722</b>	<b>5</b>	<b>26</b>	<b>179,289</b>
<b>Liabilities</b>						
Due to banks	99,988	258	-	-	-	100,246
Due to customers	4,560	475	323	-	11	5,369
Liabilities from debt securities	42,359	-	-	-	-	42,359
Provisions	4,006	-	-	-	-	4,006
Other liabilities	6,603	160	8	-	-	6,771
	<b>157,516</b>	<b>893</b>	<b>331</b>	<b>-</b>	<b>11</b>	<b>158,751</b>
Balance sheet net	19,680	447	391	5	15	20,538
Net off-balance sheet liabilities	-	(340)	(360)	-	-	(700)
<b>Net open currency position</b>	<b>19,680</b>	<b>107</b>	<b>31</b>	<b>5</b>	<b>15</b>	<b>19,838</b>

**(e) Interest rate risk**

The Group takes on exposure resulting from fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as the result of such changes, but they may decrease or result in losses in the event of unexpected movements.

Limits for the management of interest rate risk have been set up. The Group monitors portfolio sensitivity to changes in interest rates using GAP analysis.

The table below summarises the Group's exposure to interest rate risk. Included in the table are the Group's interest bearing assets and liabilities at carrying amounts, categorised by the earlier of contractual, re-pricing or maturity dates. Non-interest bearing financial assets and liabilities are classified as not specified.

**At 31 December 2004**

Assets	Within 3 months CZK m	3 - 12 months CZK m	1 - 5 years CZK m	Over 5 years CZK m	Not specified CZK m	Total CZK m
Due from banks	3,324	-	-	-	33	3,357
Due from customers	11,033	1,512	400	8,684	18,560	40,189
Debt securities	-	-	442	73	-	515
Other assets	1,061	1,956	64,029	-	17,383	84,429
	<b>15,418</b>	<b>3,468</b>	<b>64,871</b>	<b>8,757</b>	<b>35,976</b>	<b>128,490</b>
<b>Liabilities</b>						
Due to banks	25,661	27,846	900	-	-	54,407
Due to customers	8,494	983	-	-	-	9,477
Liabilities from debt securities	9,814	10,233	15,001	5,000	-	40,048
Provisions	-	-	-	-	2,594	2,594
Other liabilities	2,037	448	132	-	486	3,103
	<b>46,006</b>	<b>39,510</b>	<b>16,033</b>	<b>5,000</b>	<b>3,080</b>	<b>109,629</b>

**At 31 December 2003**

Assets	Within 3 months CZK m	3 - 12 months CZK m	1 - 5 years CZK m	Over 5 years CZK m	Not specified CZK m	Total CZK m
Due from banks	8,194	-	-	-	-	8,194
Due from customers	17,645	12,951	15,091	1,607	9,660	56,954
Debt securities	137	957	426	-	-	1,520
Other assets	12	60	-	-	112,549	112,621
	<b>25,988</b>	<b>13,968</b>	<b>15,517</b>	<b>1,607</b>	<b>122,209</b>	<b>179,289</b>
<b>Liabilities</b>						
Due to banks	78,704	17,489	4,053	-	-	100,246
Due to customers	4,883	464	22	-	-	5,369
Liabilities from debt securities	8,962	8,397	20,000	5,000	-	42,359
Provisions	-	-	-	-	4,006	4,006
Other liabilities	385	2,310	3,773	-	303	6,771
	<b>92,934</b>	<b>28,660</b>	<b>27,848</b>	<b>5,000</b>	<b>4,309</b>	<b>158,751</b>

**(f) Liquidity risk**

The Agency prepares a statement of actual and residual maturities of its assets and liabilities and monitors the limits for the purposes of liquidity risk management.

The table below analyses assets and liabilities of the Group into their relevant maturity bands, based on the remaining period at the balance sheet date to the contractual maturity date.

**At 31 December 2004**

Assets	Within 3 months CZK m	3 - 12 months CZK m	1 - 5 years CZK m	Over 5 years CZK m	Not specified CZK m	Total CZK m
Due from banks	925	2,399	-	-	33	3,357
Due from customers	3,345	5,173	3,501	8,935	19,235	40,189
Debt securities	-	-	442	73	-	515
Other assets	1,052	1,956	65,412	-	16,009	84,429
	<b>5,332</b>	<b>9,528</b>	<b>69,355</b>	<b>9,008</b>	<b>35,277</b>	<b>128,490</b>
<b>Liabilities</b>						
Due to banks	9,632	15,193	20,881	8,690	11	54,407
Due to customers	7,934	982	561	-	-	9,477
Liabilities from debt securities	9,814	10,233	15,001	5,000	-	40,048
Provisions	-	-	-	-	2,594	2,594
Other liabilities	2,499	467	-	-	137	3,103
	<b>29,879</b>	<b>26,875</b>	<b>36,443</b>	<b>13,690</b>	<b>2,742</b>	<b>109,629</b>

**At 31 December 2003**

Assets	Within 3 months CZK m	3 - 12 months CZK m	1 - 5 years CZK m	Over 5 years CZK m	Not specified CZK m	Total CZK m
Due from banks	4,733	977	2,484	-	-	8,194
Due from customers	6,128	12,579	22,824	2,525	12,898	56,954
Debt securities	137	957	426	-	-	1,520
Other assets	441	10	-	-	112,170	112,621
	<b>11,439</b>	<b>14,523</b>	<b>25,734</b>	<b>2,525</b>	<b>125,068</b>	<b>179,289</b>
<b>Liabilities</b>						
Due to banks	9,350	47,355	38,541	5,000	-	100,246
Due to customers	4,499	829	41	-	-	5,369
Liabilities from debt securities	4,160	8,704	24,495	5,000	-	42,359
Provisions	-	-	-	-	4,006	4,006
Other liabilities	539	2,310	3,773	-	149	6,771
	<b>18,548</b>	<b>59,198</b>	<b>66,850</b>	<b>10,000</b>	<b>4,155</b>	<b>158,751</b>

## 29 TOTAL DIRECT EXPOSURE TO STATE AND NPF

	31 December 2004 CZK m	31 December 2003 CZK m
Guarantees from State (Note 20)	2,066	4,254
Receivable from State due to repayment of losses (Note 10)	64,574	81,488
<b>Total exposure to State</b>	<b>66,640</b>	<b>85,742</b>
Guarantees issued by NPF (Note 20) <sup>1)</sup>	15,428	26,666
Receivable from NPF due to repayment of losses of Konpo (Note 10)	462	922
Loan granted to NPF	0	7
<b>Total exposure to NPF</b>	<b>15,890</b>	<b>27,595</b>

<sup>1)</sup>As at 31 December 2003 guarantees issued by NPF include CZK 5,862 million to cover the Group's potential losses from asserted guarantee rights relating to selected assets of KB.

With respect to the expected termination of the NPF at the end of 2005, the obligations of NPF are expected to be assumed by another state body.

## 30 SUBSEQUENT EVENTS

### (a) Early payment of loan to the Agency

On 8 March 2005 an early repayment of CZK 1.8 billion of a receivable of Osinek, a.s., was made. There was no net profit or loss impact from this repayment..

### (b) Sale of Black Diamond securities

Based on a governmental decision, in January 2005 the Agency sold Black Diamond CLO 2000-1/U.S. USD 10,000,000 Class C-2 Participation Notes securities for USD 9,013 thousand (CZK 209 million). There was not a significant net profit or loss realised from this sale.

### (c) Realised sale of receivables and shares

The Agency has realised several sales of receivables and shares in 2005 up to the date of approval of these financial statements. There was not a significant net profit or loss realised from these sales.

### (d) Planned sale of receivables and shares

The Group has a formal plan for the sale of a number of receivables and shares. The management expects these sales will have no significant net profit or loss impact.

### (e) Spolek pro chemickou a hutní výrobu, a.s.

As at 28 February 2005, a new loan contract with Raiffeisen bank became effective for provision of a long-term loan of CZK 320,000,000 to finance the construction of new polyesters and alkyds production.

These financial statements have been approved for submission to the Supervisory Board by the Board of Directors and have been signed on their behalf by:

Date	Signature of the statutory representative
28 April 2005	Ing. Petr Goldmann Ing. Mojmír Hampl, MSc., Ph.D.