

HLAVNÍ MĚSTO PRAHA
DERIVED
FINANCIAL STATEMENTS AND NOTES
YEAR ENDED 31 DECEMBER 2005

DERIVED FINANCIAL STATEMENTS AND NOTES THERETO
FOR THE YEAR ENDED 31 DECEMBER 2005

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BALANCE SHEET

ASSETS

		(CZK thousand)		
		Note	1 January 2005	31 December 2005
Total fixed assets			275 426 656	285 784 806
	Intangible fixed assets	3	557 375	785 300
	Tangible fixed assets	4	230 089 307	241 455 594
	Non-current financial assets	5	44 779 974	43 543 912
Total current assets			29 636 679	34 662 405
	Inventory		51 320	54 842
	Receivables	6	9 502 726	9 318 587
	Financial assets	7	20 024 373	25 277 981
	Temporary assets	8	58 260	10 995
TOTAL ASSETS			305 063 335	320 447 211

LIABILITIES

		Note	1 January 2005	31 December 2005
Total equity			257 544 874	272 084 738
Equity				
	Funds (assets, financial and cash)	9	276 600 724	287 472 472
	Gains and losses from the revaluation of assets and liabilities	9	(2 267 276)	(2 857 157)
Accumulated loss		10	(16 788 574)	(12 530 576)
Total liabilities			47 518 461	48 362 473
	Reserves	11	62 189	10 873
	Current bank loans	12	7 809	11 985
	Long-term payables	13	33 777 904	34 582 924
	Short-term payables	14	11 559 057	10 875 428
	Temporary liabilities	14	2 111 502	2 881 263
TOTAL LIABILITIES			305 063 335	320 447 211

DERIVED FINANCIAL STATEMENTS AND NOTES THERETO
FOR THE YEAR ENDED 31 DECEMBER 2005

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FINANCING

A.

			(CZK thousand)	
	Note	2004	2005	2005
		Actual	Adjusted budget	Actual
RECEIPTS				
Tax income	16	33 354 055	34 160 123	37 959 698
Non-tax income	17	2 624 313	1 924 760	2 255 830
Capital income	18	26 732	19 459	18 744
Subsidies	19	10 719 563	10 738 221	10 415 569
Transfers from own funds		2 655 661	4 458 706	4 142 355
TOTAL	15	49 380 324	51 301 269	54 792 196
DISBURSEMENTS				
Non-investment disbursements	20	35 401 180	36 891 976	35 282 564
Investment disbursements	20	19 148 670	19 092 068	17 403 237
TOTAL		54 549 850	55 984 044	52 685 801
RESULT FOR THE YEAR	23	(5 169 526)	(4 682 775)	2 106 395

DERIVED FINANCIAL STATEMENTS AND NOTES THERETO
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STATEMENT OF RECEIPTS, DISBURSEMENTS AND FINANCING

B.

Financing

(CZK thousand)

	2004	2005	2005
Short-term local sources of finance		Adjusted	
	Actual	budget	Actual
Short-term loans received	47 934	8 493	7 620
Repayment of short-term loans received	(5 155)	(5 000)	(3 444)
Change in short-term deposits with banks	(3 495 035)	3 245 628	(3 350 198)
Active short-term liquidity management transactions – income	48 854 484	0	38 841 031
Active short-term liquidity management transactions – disbursements	(48 076 018)	0	(40 268 289)
Long-term local sources of finance			
Long-term loans received	270 274	64 184	64 184
Repayment of long-term loans received	(210 447)	(362 147)	(343 899)
Active long-term liquidity management transactions – income	281 833	145 588	169 942
Active long-term liquidity management transactions – disbursements	(115 881)	(42 433)	(38 239)
Short-term foreign sources of finance			
Active short-term liquidity management transactions – income	15 538 556	0	0
Active short-term liquidity management transactions – disbursements	(9 022 950)	0	0
Long-term foreign sources of finance			
Long-term loans received	1 487 352	1 628 462	1 628 462
Repayment of long-term loans received	0	0	2 000
Active long-term liquidity management transactions – income	530 684	0	1 592 051
Active long-term liquidity management transactions – disbursements	(530 684)	0	0
Provisions arising from cash transactions			
Unrealised foreign exchange gains and losses	(385 421)	0	(407 616)
FINANCING	5 169 526	4 682 775	(2 106 395)

DERIVED FINANCIAL STATEMENTS AND NOTES THERETO
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INCOME STATEMENT

(taxable activity)

		(CZK thousand)	
	Note	2004	2005
Profit on the sale of goods, products and services	25	6 612 956	6 428 961
Profit on the sale of fixed assets and material	26	2 186 366	2 304 000
Other operating income	27	1 607 213	343 539
TOTAL OPERATING INCOME		10 406 535	9 076 500
Costs of goods, products and services sold	29	(4 398 619)	(3 683 823)
Wages and salaries		(134 611)	(140 099)
Depreciation	30	(1 845 664)	(2 016 903)
Increase (-) /decrease (+) in reserves and provisions		25 867	17 474
Other operating expenses	31	(542 410)	(308 743)
TOTAL OPERATING EXPENSES		(6 895 437)	(6 132 094)
Operating profit/(loss)		3 511 098	2 944 406
Profit on the sale of securities	28	14 840	0
Income from financial assets	28	53 706	1 020
PROFIT ON FINANCIAL TRANSACTIONS	28	68 546	1 020
Profit before taxation	24	3 579 645	2 945 426
Income taxes	24	(1 185 912)	(902 759)
NET PROFIT FOR THE YEAR	24	2 393 733	2 042 667

**NOTES TO THE DERIVED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

Name:	HLAVNÍ MĚSTO PRAHA
Registered Office:	Mariánské náměstí 2, Prague 1
Legal Status:	Territorial Self-Governing Unit

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1. GENERAL INFORMATION

The Capital City of Prague (hereinafter the “City”) is a public service corporation divided into 57 boroughs on a territorial basis.

Organisational Structure of the City

The organisational structure of the City is defined by the Charter of the City of Prague.

The bodies of the City include the City Council, Board of the Council, Metropolitan Authority and special bodies.

The City Council

The City Council has a total of 70 members who are elected by the citizens of the City of Prague for four years.

For the election period 2002 – 2006 the following political parties are represented in the City Council: Civil Democrats (ODS), Social Democrats (ČSSD), European Democrats (SNK ED), Christian Democrats (KDU-ČSL) and the Communist Party (KSČM).

The City Council usually held meetings on a monthly basis, or as and when needed. Its meetings are open to the public. Minutes are taken during the meetings and these are available to the public.

The City Council makes decisions with regard to matters that are included within the standalone remit of the City.

The following activities lie, *inter alia*, within the remit of the City Council:

- Presenting bills to the Chamber of Deputies;
- Presenting proposals to the Constitutional Court to revoke other legal regulations if they are in breach of legislation;
- Approving, subject to discussion with city boroughs, the City’s budget and the City’s closing account;
- Approving, subject to discussion with city boroughs, a territorial plan;
- Approving, subject to discussion with city boroughs, and implementing the City’s development programme; and
- Appointing the Mayor of the City, his or her deputies and other members of the Board (councillors) and recalling them.

The exact definition of the decision making of the City Council is stipulated by Act no. 131/2000 Coll., on the City of Prague.

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Composition of the City Council

Political party	Name
Civil Democrats	Ivan Bednář, Pavel Bém, František Bílek, Rudolf Blažek, Jan Bürgermeister, Bohumil Černý, Milan Český, Tomáš Dub, Miroslav Froněk, Ondřej Gál, Miloš Gregar, Michael Gregor, Martin Hejl, Petr Horák, Pavel Hurda, Milan Jančík, Petr Jirava, Pavel Klega, Marie Kousalíková, Zdeněk Kovářik, Petr Kužel, Martin Langmajer, František Laudát, Jan Lukavský, Petr Moos, Richard Nigrini, Ondřej Pecha, Vladimír Řihák, Alena Samková, František Stádník, Radovan Šteiner, Tomáš Vavřinec, Pavel Žďárský
European Democrats	Zdeněk Bašný, Ivana Bursíková, Karel Fischer, Monika Janíková, Jiří Kaňák, Jan Kasl, Karel Koželuh, Martin Kroh, Jan Mihaliček, Markéta Reedová, Olga Sedláčková, Milan Urban, Petr Vlasák, Jana Vohralíková, Jiří Witzany
Social Democrats	František Adámek, Lubomír Habrnál, Hana Halová, Petr Hulínský, Jan Choděra, Miloslav Ludvík, Karel Matouš, Tomáš Novotný, Miroslav Poche, Vladimír Polanecký, Jan Slezák, Jan Štrof
Communist Party	Pavel Ambrož, František Hoffman, Vítězslav Jaroš, Josef Mach, Viktor Pázler, Miroslav Prokeš, Josef Růžička, Petr Zajíček
Christian Democrats	Marián Hošek
Independent	Michael Hvízdala

Board of the City Council

The Board has a total of 11 members and is elected by the City Council. Its members are the Mayor of the City, four Deputy Mayors and six councillors. The Board meets on Tuesdays, or as needed, and the meetings are not open to the public. Minutes are taken during the meeting and these are available to the public.

The Board is the executive body of the City within the standalone remit. The Board prepares proposals to be discussed by the City Council and ensures implementation of the resolutions adopted by the City Council.

The following activities lie, *inter alia*, within the remit of the Board:

- Overseeing the economic activities of the City;
- Implementing budgetary measures;
- Establishing rules for accepting and dealing with petitions and complaints;
- At the suggestion of the Chief Executive of the Metropolitan Authority, establishing or cancelling departments of the Metropolitan Authority and issuing the organisational rules of the Metropolitan Authority; and
- Making decisions on the appointment or recalling of the directors of the departments of the Metropolitan Authority.

The exact definition of the decision making of the Board of the City Council is stipulated by Act No. 131/2000 Coll., on the City of Prague.

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Composition of the Board of the City Council as of 31 December 2005

Name	Position	Political party	Remit
Pavel Bém	Mayor	Civil Democrats	Foreign policy, external relations, relations and cooperation with the Association of Czech municipalities and Association of Czech regions, the coordination and implementation of the City's Strategic Plan
Rudolf Blažek	Deputy Mayor	Civil Democrats	Legislative, legal and security matters
Jan Burgermeister	Deputy Mayor	Civil Democrats	Territorial development, housing policy, preservation of monuments and public administration reform
Petr Hulínský	Deputy Mayor	Social Democrats	Financial policy, sport
Jan Choděra	Deputy Mayor	Social Democrats	Supply of energy, exhibitions and fairs, coordination of criminality prevention activities
Bohumil Černý	Councillor	Civil Democrats	Culture, tourism and congress tourism, churches and religious societies and funeral services
Miloš Gregar	Councillor	Civil Democrats	Environment, waste management and water supply
Hana Halová	Councillor	Social Democrats	Health care, social care and ethnic minorities
Pavel Klega	Councillor	Civil Democrats	Management of municipal assets, economic policy, municipal infrastructure
Radovan Šteiner	Councillor	Civil Democrats	Transportation
Jan Štrof	Councillor	Social Democrats	Education, children and youth

Pavel Bém became Mayor of the City in November 2002.

Metropolitan Authority

The Metropolitan Authority is run by the Chief Executive to whom all of the City's employees included in the Metropolitan Authority report. The Chief Executive is appointed and recalled by the Mayor subject to the prior consent of the Interior Minister. In 2005, Martin Trnka was the Chief Executive of the Metropolitan Authority.

The Metropolitan Authority within its standalone remit fulfils the tasks of the City Council or of the Board of the Council.

The Metropolitan Authority executes transferred remit of the City, if this remit is not entrusted to other bodies of the City through the legislative process.

Borough bodies report to the Metropolitan Authority with respect to issues relating to delegated competence. The borough bodies are councils, boards of councils, offices and special bodies.

Basic organisational units of the Metropolitan Authority are divisions that are further divided into departments. The Metropolitan Authority also includes special organisational units.

Divisions of the Metropolitan Authority, with the exception of "Metropolitan Authority Head's Office", legislative and legal division, crisis management division, information technology division and economic policy division, are incorporated in five organisational areas for the execution and provision of certain activities.

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Divisions and Special Organisational Units of the Metropolitan Authority

1. Financial Section

- Taxes, Charges and Prices Division (DPC)
- Budget Division (ROZ)
- Accounting Division (UCT)

2. Regional and Municipal Competencies Section

- Education Division (SKU)
- Art Schools, Youth and Sports Division (OMT)
- Social and Health Care Division (SOC)
- Archives of the City of Prague division (AMP)
- City Infrastructure Division (OIM)

3. External Affairs Section

- Mayor's Office Division (PRM)
- Public Relations Division (OPR)
- International Affairs and EU Funding Division (OZF)
- Civil Law Issue Division (OSA)
- Transport Administration Issues Division (DSA)
- Sole Traders Division (ZIV)
- Construction Division (OST)
- Transportation Division (DOP)
- Culture, Preservation of Monuments and Tourism Division (OKP)
- Development Programme Division (OUP)
- Environmental Division (OOP)

4. Property Affairs Sections

- Commercial Activities Division (OOA)
- Property Management Division (OSM)
- Housing Division (BYT)
- City Investor Division (OMI)

5. Control Activities Section

- Control Activities Division (OKC)

Special Organisational Units

- Secretariats of Deputy Mayors and Councillors

Divisions Managed Directly by the Head of the Metropolitan Authority

- Head of the Metropolitan Authority Secretariat Division (RED)
- Legislative and Legal Department (LEG)
- Crisis Management Division (OKR)
- IT Department (INF)
- Economic Administration Division (OHS)

The City, together with the boroughs to a stipulated extent, administer the affairs pertaining to the City autonomously. The autonomous performance of administration duties is defined in the Act on the Capital City of Prague 131/2000 Coll., as amended.

In addition to the Act on the Capital City of Prague, powers and responsibilities of the City's bodies are defined by the following principal acts and regulations:

- Act on Budgetary Rules of Territorial Budgets 250/2000 Coll.;
- Act 450/2001 Coll., on Changes in Certain Acts relating to Public Administration;
- Act 320/2001 Coll., on Financial Control in Public Administration;
- Public Procurement Act 40/2004 Coll.;
- The Charter of the Capital City of Prague (the Council's regulation); and
- Regulation of the Ministry of Finance of the Czech Republic No. 323/2002 Coll., on budget composition.

Furthermore, the City and boroughs exercise delegated authority to perform public administration within the scope provided by special laws and also by the Charter of the Capital City in the case of boroughs.

The City constitutes a region and municipality which is the sponsor or founder of subsidised organisations, state enterprises, business companies and organisational branches. Under effective legislation, the City is considered a territorial self-governing unit from the perspective of economic performance and maintenance of accounting records and books.

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The City undertakes

- Principal activities within the major areas of operation; and
- Taxable activities, that is, activities generating income for the City and boroughs (from the management of municipal assets) which is subject to income tax pursuant to the Income Taxes Act 586/1992 Coll., as amended.

In compliance with the new VAT Act 235/2004 Coll., the City is liable to VAT. Since 1 August 2004, the City has been a VAT payer.

On 1 January 2005, the City and the boroughs became independent VAT payers.

With effect from 1 October 2000, the City has had a representation office in Brussels, Belgium. At the end of June 2002, this representation office launched its activities.

The financial statements of the City have been prepared as of and for the year ended 31 December 2005.

2. ACCOUNTING POLICIES

(a) Purpose of Preparing Derived Financial Statements

The City's accounting records and books are maintained and the financial statements are prepared in accordance with the Accounting Act 563/1991 Coll., the Regulation 505/2002 Coll., which provides implementation guidance on the amended Act for reporting entities that are territorial self-governing units, subsidised organisations, state funds and organisational units of the state maintaining double-entry accounting records in compliance with Regulation 477/2003 Coll. and 549/2004 Coll., and Czech Accounting Standards Nos. 501-522 for territorial self-governing units, subsidised organisations, state funds and organisational units of the state.

The accompanying accounting and financial statements (hereinafter the 'statements') do not represent statutory statements prepared by the City of Prague as of 31 December 2005 and 2004 in accordance with the above regulations providing guidance on maintaining accounting records and preparing financial statements, but have been derived from the statutory statements. The derived statements were prepared by summarising sub-components of the statutory statements.

The statements have been prepared in a simplified format that is understandable to users that do not have a detailed understanding of the chart of accounts and accounting procedures for territorial self-governing units. The statements do not include any adjustments that would affect the reported amounts or adjust the reported amounts other than those necessary for the statutory accounting policies under which the statements were prepared.

If these notes describe information with respect to the financial statements, this information also applies to the derived financial statements, unless indicated otherwise.

(b) Basis of Presentation

The financial statements of the City (i.e. the City itself and 57 boroughs) comprise a balance sheet, a statement of receipts, disbursements and financing, income statement and notes thereto prepared as of and for the year ended 31 December 2005. The financial statements include disclosures of assets and liabilities (including equity), receipts and disbursements, income and expenses of the City and of those entities that are part of the aggregate operations of the City.

The business companies in which the City holds investments are not included in the financial statements. These companies (Dopravní podnik, a.s. – Transport Company, Kongresové centrum Praha, a.s. – Congress Centre, etc) are not formally considered part of the City's operations. The acquisition cost of equity investments in the companies referred to above is recorded in the balance sheet as part of non-current financial assets. Non-investment and investment subsidies provided by the City to these companies are recorded in the statement of receipts, disbursements and financing as capital or ordinary expenditure. Income from the profit share and dividends from these companies is recorded in the statement of receipts, disbursements and financing as non-tax income.

Subsidised organisations and organisational branches are sponsored by the City and boroughs. Their purpose and objectives are defined by the sponsor in the Deed of Establishment. The sponsor can define the assets of the City designed for use by the subsidised organisations sponsored by them.

Subsidised organisations are excluded from the City's financial statements. Contributions made by the City to the subsidised organisations are recorded to the statement of receipts, disbursements and financing as capital or ordinary expenditure.

In compliance with applicable legislation, the financial statements of the City and organisations formed by it (businesses companies, subsidised organisations) are not prepared on a consolidated basis.

The summarised balance sheet of all of the subsidised organizations is presented in Note 34 to the financial statements.

These financial statements are presented in thousands of Czech crowns (CZK thousand), unless indicated otherwise.

(c) Accounting Principles

The financial statements were partially prepared under the historical cost convention and selected components were prepared under specific legislative requirements.

According to the requirements of applicable Czech accounting procedures, the statement of receipts and disbursements was prepared on the cash basis of accounting (based on actual receipts and disbursements), while the income statement complies in selected areas with the accruals principle in conformity with the effective Czech accounting regulations.

The financial statements are largely not prepared using the accruals method in accordance with the accounting principles and procedures for territorial self-governing units applicable in the Czech Republic.

Reserving Policies

The City is authorised to recognise statutory reserves only within taxable activities. The addition to, and drawing of, reserves is governed by the Provisioning Act 593/1992 Coll., as amended.

Provisioning Policies

No provisions are made for tangible and intangible fixed assets because this treatment is not allowed by the effective accounting procedures.

No provisions are made for impairment of non-current financial assets because this treatment is not allowed by the effective accounting procedures for organisational units

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of the state, territorial self-governing units and subsidised organisations. As and when required by accounting regulations, these assets are remeasured at fair value.

No provisions are made for impairment of inventory because this treatment is not allowed by the effective accounting procedures.

Provisions against receivables can be created only for doubtful balances arising in connection with taxable activities that carry the risk of not being fully or partially repaid by debtors.

Allowable provisioning levels are set out in the Provisioning Act 593/1992 Coll.

If all provisions for the assets from the main as well as taxable activities were recognised, the net carrying amounts of these assets might be substantially different from the amounts reported in the financial statements.

Accruals Principle

The City is authorised to recognise income and expenses from taxable activities on an accruals basis. Receipts and disbursements are not accounted for on an accruals basis.

(d) Tangible Fixed Assets

Tangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand on an individual basis.

All tangible fixed assets acquired during the current year are valued at acquisition cost which includes the purchase cost and costs attributable to the acquisition.

The ownership of the majority of tangible fixed assets is primarily governed by Act 172/1991 Coll., on the Transfer of Certain Assets of the Czech Republic to Municipalities, as amended.

The general principles applicable to the transfer of assets are as follows:

- All tangible fixed assets owned by the Czech Republic administered by the City on the basis of the right-to-use agreement of 23 November 1990 were transferred to the City on 24 April 1991, where such assets were managed by the City as of that date. Those assets which the City commenced administering after 23 November 1990 in a manner similar to the right-to-use agreement were also transferred to the City where such assets were used by the City as of 24 April 1991;
- Land administered by the City was transferred to the City on 24 April 1991 including land developed or built on since;

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- Apartment buildings and underlying land were transferred to the City on 24 April 1991 where such buildings were located within the City's cadastral area, were owned by the Czech Republic prior to the transfer and the right to manage the buildings had been conferred to organisations sponsored by the City;
- Apartment buildings of the multiple-unit residential building category under construction as of 31 December 1992 and the underlying land were transferred to the City as of 1 January 1993 where such buildings were located within the City's cadastral area, were owned by the Czech Republic prior to the transfer and the City was the investor;
- Tangible fixed assets used by organisations undertaking construction activities related to residential building construction under the right-to-use agreement were transferred to the City as of 1 January 1993 where such assets were owned by the Czech Republic and the City was, or was deemed to be, the sponsor of such organisations; and
- Certain other assets owned by the state were also transferred to the City as of 24 April 1991.

Tangible fixed assets acquired by transfer (except for land) are carried at acquisition cost. The acquisition cost is defined as the carrying value of the assets in the transferor's accounting records which includes technical improvements. The manner in which such improvements were added to the carrying value of these assets depends on the accounting regulations effective at the time of the improvements.

Tangible fixed assets are depreciated only if they are used in business activities generating taxable income. Depreciation is charged to the relevant expense account for the purposes of determining the tax base. Therefore, only depreciation rates provided by the Income Taxes Act are applicable, irrespective of the actual useful lives of the assets.

The City depreciates tangible fixed assets individually only to the extent that the business activity is not loss making and only in cases where the cost of such assets can be accurately determined.

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The types of acquired assets and the method of their valuation are as follows:

Type of asset	Valuation method
Land	Land is valued in compliance with the relevant regulations, namely Regulation No. 151/1997, Regulation No. 393/1991 Coll., Regulation No. 611/1992 Coll., Regulation No. 110/1992 Coll., Regulation No. 279/1997, Regulation No. 325/2002 and Regulation No. 540/2002 Coll.
Infrastructure (roads and sewage systems):	Acquisition cost
Apartment buildings and other buildings	Acquisition cost and a price determined on the basis of the transferor's valuation report for transfers with no consideration
Educational facilities (pre-school facilities, elementary schools and technical schools):	Acquisition cost
Immovable cultural monuments	Acquisition cost at the moment of acquisition and a price determined on the basis of an expert valuation report, or a zero price where any precise valuation cannot be arrived at
National cultural monuments	Zero cost
Vehicles	Acquisition cost
Furniture and fixtures	Acquisition cost

(e) Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Intangible fixed assets are carried at acquisition cost.

All intangible fixed assets with a unit cost below CZK 60 thousand are acquired from operating funds and expensed in the period of acquisition.

The City charges amortisation on intangible fixed assets solely in circumstances where the assets are used for activities that give rise to taxable income.

(f) Non-Current Financial Assets

Purchased non-current financial investments are carried at cost. Securities acquired by the transfer are carried at the value carried in the transferor's accounting records.

Accounts of the City were not consolidated (i.e. preparation of the consolidated financial statements of the City and its affiliated companies and subsidiaries and subsidised organisations) as no consolidation is required by the accounting regulations for territorial self-governing units in the Czech Republic and it would be difficult to prepare due to the differences in the accounting records maintained by organisational branches, subsidised organisations and business companies.

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The acquisition cost of securities or equity investments includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

At the date of acquisition of the securities and equity investments, the City categorises these non-current financial assets based on their underlying characteristics as equity investments, debt securities held to maturity or other non-current financial assets.

At the balance sheet date, securities and equity investments denominated in a foreign currency are re-translated using the exchange rate of the Czech National Bank prevailing as of that date, and any resulting foreign exchange rate gains or losses are recognised as a component of gains or losses arising from the revaluation of assets and liabilities, the only exception being debt securities.

At the balance sheet date, the City records:

- Equity investments valued at acquisition cost;
- Debt securities held to maturity at cost increased or decreased to reflect interest income or interest expense; and
- Other securities measured at fair value on the basis of a reasonable estimate, or translated by the exchange rate promulgated by the Czech National Bank as of 31 December.

(g) Financial Derivative Instruments

The City designates derivative financial instruments as either trading or hedging. The City's criteria for a derivative instrument to be accounted for as a hedge include:

- Pursuant to the resolution of the Board of the City Council, at the inception of the hedge, the documentation identifies the hedged item and the hedging instrument, defines risk that is being hedged and the approach to establishing and documenting whether the hedge is effective;
- At the inception of the hedge, the hedging transaction is formally documented;
- The hedge is highly effective (that is, within a range of 80 percent to 125 percent); and
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis.

If derivative instruments do not meet the criteria for hedge accounting referred to above, they are treated as trading derivatives.

Valuation

Derivatives are valued at cost at the acquisition date. The valuation arrived at by a reasonable estimate is used as a fair value. The cost of derivatives includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

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Derivative financial instruments are carried at fair value at the balance sheet date.

Fair value changes in respect of derivatives hedging the fair value of assets and liabilities are recognised as an expense or income.

Fair value changes of hedged assets and liabilities are also recognised as gains or losses from revaluation of assets and liabilities.

At settlement, the original entries are reversed in circumstances where the original changes in fair values of derivatives were recorded as gains or losses from the revaluation of assets and liabilities.

In other cases, the settlement of derivatives is recognised through other expenses or income as appropriate.

Determination of Fair Value

In determining fair value, the City has used a reasonable estimate.

(h) Inventory

Inventory is valued at cost which includes costs attributable to the acquisition of inventory.

(i) Receivables

Receivables are stated at their nominal value. In accordance with applicable Czech legislation, the City does not recognise provisions for doubtful and bad debts.

Provisions are recorded as part of taxable activities pursuant to the Provisioning Act 593/1992 Coll. or write-offs are recorded in terms of the relevant provisions of the Income Taxes Act 586/1992 Coll., as appropriate.

(j) Translation of Foreign Currencies

Transactions denominated in a foreign currency are translated and recorded at the exchange rate ruling at the transaction date. All cash and short-term investments denominated in a foreign currency are translated at the year-end exchange rate published by the Czech National Bank.

Foreign exchange rate differences arising from the translation of budget activity account balances are maintained in the appropriate entry of the receipt and disbursement statement.

Foreign exchange rate differences on the translation of business activity bank account balances are recorded in the income statement.

Unrealised exchange rate gains or losses from the translation of debt securities issued and loans received are recorded through other assets or liabilities.

No reserve is made for unrealised foreign exchange rate losses in compliance with applicable legislation.

All other balances denominated in a foreign currency are translated at the year-end exchange rate published by the Czech National Bank and any resulting foreign exchange rate gains and losses are recorded in other assets or liabilities.

(k) Subsidies

State subsidies (both general and special purpose) are recognised as income for the relevant fiscal period at the date of receipt. Unutilised special purpose subsidies are remitted to the state budget, unless the donor decides otherwise. This transfer of funds is recorded as ordinary expenditure in the receipt and disbursement statement.

(l) Repairs and Maintenance

Repair and maintenance expenditure relating to assets employed in major areas of the City's operation is recorded to the relevant expense account in the receipt and disbursement statement. Repair and maintenance expenditure relating to assets generating income subject to income tax is recognised in the income statement.

(m) Consolidation of Budgetary Components

The consolidation of receipts, disbursements and financing is set out in Regulation of the Finance Ministry of the Czech Republic No. 16/2001 Coll., providing guidance on the methods, timing and scope of information disclosed for the assessment of receipts and disbursements of the state, state funds and territorial self-governing units as amended by Regulation No. 535/2002 Coll. and No. 544/2004 Coll.

Consolidation is defined as the preparation of aggregate statements of monetary transactions of selected accounts according to the budget structure where mutual money transfers are eliminated.

(n) Funds and the Clearance Account

Fixed Asset Fund

The fixed asset fund reflects the value of tangible and intangible fixed assets and non-current financial assets on the face of the balance sheet. Differences between the balance of the fixed assets fund and the value of non-current assets is attributable, for instance, to the non-transfer of the funding for the financed fixed assets, gains or losses from the fair value remeasurement of other non-current financial assets, etc.

Current Asset Fund – Major Operations

This fund is primarily used for crediting free transfers of current assets to the major operations of the City, material returned from discarded tangible fixed assets and the balance of current financial assets.

Business Activity Fund

This fund is the source of funding of current assets of territorial self-governing units from taxable activities, primarily current asset additions transferred for zero consideration and material acquired from the disposal of low value tangible fixed assets.

Financial and Monetary Funds

The financial and monetary funds comprise the following three funds:

- *The employer fund* is created by the City and boroughs. The creation and drawing of the fund are included within the City's budget. This fund is used to settle the employer's contribution to the additional pension insurance schemes, for cultural and recreational activities, housing assistance, meal allowances and other social assistance to employees;
- *The fund for apartment repairs and maintenance* holds a special purpose loan from the Czech Ministry for Regional Development; and
- *The reserve and development fund* is designed to record gifts and other income that are not to be used in the current year and received payments of debts from previous years. This fund is used for transfers to other funds (mainly the employer fund) and to the City's budget based on the Council's decisions.

Clearance Account

This account reflects differences between expenses and disbursements and between income and receipts arising from non-cash transactions included in the income and expense accounts.

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(o) Transfer Bridge between the Closing Balance Sheet of the City as of 31 December 2004 and the Opening Balance Sheet as of 1 January 2005

There were no differences between the closing balance sheet of the City as of 31 December 2004 and the opening balance sheet as of 1 January 2005.

(CZK thousand)			
Assets	At 31 December 2004	At 1 January 2005	Difference
Intangible fixed assets	557 375	557 375	0
Tangible fixed assets	230 089 307	230 089 307	0
Non-current financial assets	44 779 974	44 779 974	0
Inventory	51 320	51 320	0
Receivables	9 502 726	9 502 726	0
Financial assets	8 410 548	8 410 548	0
Budgetary funds	11 613 825	11 613 825	0
Temporary assets	58 260	58 260	0
Total assets	305 063 335	305 063 335	0
Liabilities			
Equity funds	275 038 862	275 038 861	0
Financial and cash funds	1 561 863	1 561 863	0
Valuation gains or losses	-2 267 276	-2 267 276	0
Inter-budgetary refundable financial assistance received	487 482	487 482	0
Profit or loss	-16 788 574	-16 788 574	0
Reserves	62 189	62 189	0
Long-term payables	17 336 314	17 336 314	0
Short-term payables	11 559 057	11 559 057	0
Bank loans and borrowings	15 961 917	15 961 917	0
Temporary liabilities	2 111 502	2 111 502	0
Total liabilities	305 063 335	305 063 335	0

(p) Changes in Accounting Policies

No significant changes in accounting policies were made during the year ended 31 December 2005.

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3. INTANGIBLE FIXED ASSETS

(CZK thousand)

	1 January 2004 Acquisition cost	Additions	Disposals	31 December 2004 Acquisition cost	Additions	Disposals	31 December 2005 Acquisition cost
Intangible fixed assets	346 504	100 780	5 990	441 295	244 769	10 813	675 251
Intangible fixed assets under construction	112 651			115 590			108 327
Prepayments for intangible fixed assets	1 898			490			1 722
TOTAL	461 053			557 375			785 300

4. TANGIBLE FIXED ASSETS

(CZK thousand)

	1 January 2004 Acquisition cost	Additions	Disposals	31 December 2004 Acquisition cost	Additions	Disposals	31 December 2005 Acquisition cost
Land	48 326 946	2 031 549	2 004 466	48 354 029	2 517 795	1 978 943	48 892 881
Structures	134 237 507	15 074 679	8 894 480	140 417 706	9 594 329	3 851 861	146 160 174
Works of art	607 854	39 804	560	647 098	10 895	20 728	637 265
Individual movables, perennial crops and breeding animals	5 755 339	551 703	1 143 247	5 163 796	1 218 191	198 127	6 183 860
Low value tangible fixed assets and other tangible fixed assets	1 044 272	303 322	158 095	1 189 498	157 842	79 672	1 267 668
Tangible fixed assets under construction	31 577 055			33 968 284			38 134 952
Prepayments for tangible fixed assets	494 376			348 896			178 794
TOTAL	222 043 349			230 089 307			241 455 594

The ownership of a number of pieces of land has not been entered in the books of the Land Register Office as restitution claims have been lodged in many cases. As of 31 December 2005, the volume of land within the City not yet settled is approximately CZK 4,016 million (CZK 4,994 million as of 31 December 2004). The City treats these assets as its own pending a court resolution. In circumstances where the court issues a verdict against the City, the assets will be reversed against the fund of fixed assets.

The City reports the Ergon Jiviny building at a cost of CZK 246 million as a component of tangible fixed assets under construction. The Board of the City Council has decided to demolish this building. The building will be written off and removed from the accounts only after it has been liquidated. The City Council issued Resolution No. 31/59 on 20 October 2005 approving the transfer for consideration of plots of land Nos. 1080/2, 1103/15, 1080/3, 1103/17, 1101/3, 1103/16, 1101/4, 1101/2, 1103/14, 1101/5 and 1103/18 of a total area of 8,285 m² and buildings under construction on this land and undeveloped plots of land Nos. 1101/1, 1103/1, 1080/1, 1080/4 and 1080/5 in the amount of CZK 15,502 thousand and of a total area of 16,204 m² in the cadastral area Ruzyně belonging to Bredo, a.s. on the condition that the land will be transferred to Bredo, a.s. only after the building is demolished, on 30 June 2006 at the latest.

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In compliance with the effective accounting policies, the City recognises no reserves for any future costs related to the demolition of this structure.

Set out below is a list of national cultural monuments registered under ‘Structures’ within tangible fixed assets valued at zero cost

Location in the City	Name of the national cultural monument
Prague 1 - Malá Strana	Petřín Park – Stations of the Cross
Prague 1 - Staré Město	Martinská St – St Martin in the Wall Church
Prague 1 - Malá Strana	Malostranské Square 29
Prague 1 - Holešovice	Edvarda Beneš Embankment – St Mary Magdalene Chapel
Prague 1 - Malá Strana	Na Petříně, St Grave Chapel
Prague 1 - Malá Strana	Na Petříně St – St Cross Chapel
Prague 1 - Malá Strana	Na Petříně St – St Lawrence Chapel
Prague 1 - Malá Strana	Petřín Park – The God’s Grave Chapel
Prague 1 - Staré Město	Novotného lávka
Prague 1 - Staré Město	Anežská 12, St Anezka Convent
Prague 1 - Staré Město	The Old Town Square – St Nicolas Church
Prague 1 - Nové Město	Ke Karlovu St No. 20
Prague 2 - Nové Město	Ke Karlovu St – The Assumption of the Virgin Church
Prague 2 - Nové Město	Ke Karlovu St – Chapel – morgue
Prague 2 - Nové Město	Ječná St – St Ignace Church
Prague 2 - Nové Město	Na Slupi St – The Annunciation Church
Prague 5 - Smíchov	Holečkova 97, Švýčárna
Prague 4 - Braník	Branická St – St Anne Chapel
Prague 6 - Suchdol	St Wenceslas Chapel
Prague 6 - Sedlec	Sedlec – The Holy Trinity Chapel
Prague 8 - Libeň	Povltavská – St Vojtech Church

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5. NON-CURRENT FINANCIAL ASSETS

	(CZK thousand)	
	31 December 2004	31 December 2005
Equity investment in subsidiaries	42 539 050	42 684 051
Equity investments in associates	20 492	20 492
Debt securities held to maturity	3	0
Other non-current financial assets	2 220 429	839 369
TOTAL	44 779 974	43 543 912

The City maintains the following equity investments in subsidiaries

	(CZK thousand)						
	31 December 2005						
	Share capital	Equity	Ownership percentage	The City's share of equity	Number of shares	Carrying amount	Difference between the share of equity and carrying amount
Dopravní podnik hl. m. Prahy, akciová společnost*	30 726 125	60 814 336	100	60 814 336	3 001	30 726 125	30 088 211
Kongresové centrum Praha, a.s.*	7 138 000	4 919 513	100	4 919 513	71 380	7 138 000	-2 218 487
Kolektory Praha, a.s.*	69 617	71 008	100	71 008	11	69 617	1 391
Obchodní společnost PČM, a.s.**	1 000	2 920	100	2 920	1 000	1 000	1 920
Obecní dům, a.s.	12 000		100		12	12 000	
TCP – Vidoule, a.s.*	104 770	114 251	98.09	112 069	10 277	102 770	9 299
Pražská vodohospodářská společnost, a.s.*	5 445	54 544	92.01	50 186	5 010	5 010	45 176
TRADE CENTRE PRAHA a.s.*	15 055	32 747	89.67	29 364	270	14 070	15 294
Pražské služby, a.s.*	2 631 167	3 309 322	76.92	2 545 531	2 137 045	2 023 945	521 586
Pražská energetika Holding a.s.*	3 598 627	4 671 385	51	2 382 406	1 835 300	1 002 261	1 380 145
Pražská plynárenská Holding a.s.*	1 515 470	1 962 019	51	1 000 630	772 890	369 082	631 548
Pražská plynárenská Holding a.s.*	1 937 691	2 666 203	51	1 359 764	988 222	999 136	360 628
Total						42 463 016	
Total city boroughs						221 035	
TOTAL						42 684 051	-

* Figures on share capital and equity reported as of 31 December 2004

** Figures on share capital and equity reported as of 31 December 2003

Current information on the equity investment in subsidiaries was not available as of 31 December 2005.

The City, as the sole shareholder, did not receive any interim certificates or shares since the formation of Kongresové centrum Praha, a.s. (1995) until 31 December 2005. In October 2005, the entity was asked to resolve this situation.

The City's share of equity in Kongresové centrum Praha, a.s. is lower than the carrying value of the equity investment of the City in this entity.

The City Council approved the formation of the joint stock company Obecní dům, a.s. by its resolution No. 26/12 of 31 March 2005. The Obecní dům no. 1090 building was leased to Obecní dům, a.s., before it was administered by the subsidised organisation Obecní dům.

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The City invested an amount of CZK 12 million (12 shares with a nominal value of 1 million per share) in Obecní dům, a.s. at its formation. The amount was sent to the bank account of Obecní dům, a.s. on 16 May 2005.

Obecní dům a.s. issued 12 shares in certificate form, with a nominal value of CZK 1 million per share on 14 June 2005. The shares were transferred under the hand-over protocol to the City on 19 December 2005.

At the balance sheet date, no detailed information on equity investments of boroughs in subsidiaries was available.

(CZK thousand)

31 December 2004							
	Share capital	Equity	Ownership percentage	The City's share of equity	Number of shares	Carrying amount	Difference between the share of equity and carrying amount
Dopravní podnik hl. m. Prahy, akciová společnost*	30 726 125	60 814 336	100	60 814 336	3 001	30 726 125	30 088 211
Kongresové centrum Praha, a.s.**	7 138 000	4 850 643	100	4 850 643	71 380	7 138 000	-2 287 357
Kolektory Praha, a.s.**	69 617	71 096	100	71 096	11	69 617	1 479
Obchodní společnost PČM, a.s.**	1 000	2 920	100	2 920	1 000	1 000	1 920
TCP – Vidoule, a.s.**	104 770	108 772	98.09	106 694	10 277	102 770	3 924
Pražská vodohospodářská společnost, a.s.**	5 445	47 816	92.01	43 996	5 010	5 010	38 986
TRADE CENTRE PRAHA akciová společnost**	15 055	31 363	89.67	28 123	270	14 070	14 053
Pražské služby, a.s.**	2 631 167	3 273 873	76.922	518 263	2 137 045	2 023 945	494 318
Pražská teplárenská Holding a.s.*	1 937 691	2 666 203	511	359 764	988 222	999 136	360 628
Pražská energetika Holding a.s.*	3 598 627	4 671 385	512	382 406	1 835 300	1 002 261	1 380 145
Pražská plynárenská Holding a.s.*	1 515 470	1 962 019	511	000 630	772 890	369 082	631 548
Total						42 451 016	
Total city boroughs	-	-	-	-	-	88 034	-
TOTAL	-	-	-	-	-	- 42 539 050	-

* Figures on share capital and equity as of 31 December 2004 (report of EPIC Securities, a.s.)

** Figures on share capital and equity as of 31 December 2003

During the year ended 31 December 2004, the share capital of Kolektory Praha, a.s. was increased by CZK 1,614 thousand through the transfer of the assets from the subsidised organisation Kolektory.

The City maintains the following equity investments in associates

(CZK thousand)

31 December 2005							
	Share capital	Equity	Ownership percentage	The City's share of equity	Number of shares	Carrying amount	Difference between share of equity and carrying amount
PRaK, a.s.*	5 850	4 023	25.64	1 032	300	1 500	-468
Total						1 500	
Total city boroughs	-	-	-	-	-	18 992	-
TOTAL	-	-	-	-	-	20 492	-

* Figures on share capital and equity as of 31 December 2004

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Current information on equity investments in subsidiaries was not available as of 31 December 2005.

During 2005, there were no significant changes in the equity investments of the City in the associates.

The City's share of the equity of PRaK a.s. is lower than the carrying value of the equity investment of the City in this entity.

At the balance sheet date, no detailed information on equity investments of boroughs in the associates was available.

(CZK thousand)

31 December 2004							
	Share capital	Equity	Ownership percentage	The City's share of equity	Number of shares	Carrying amount	Difference between share of equity and carrying amount
PRaK, a.s.*	5 850	3 997	25.64	1 025	300	1 500	-475
Total						1 500	
Total city boroughs	-	-	-	-	-	18 992	-
TOTAL	-	-	-	-	-	20 492	-

* Figures on share capital and equity as of 31 December 2003

In 2004, shares of PPF Banka, a.s. were sold for CZK 5,829 thousand. The carrying value of these shares was CZK 5,829 thousand.

Other Non-Current Financial Assets

31 December 2005							
	Share capital	Equity	Ownership percentage	The City's share of equity	Number of shares	Carrying amount	Difference between share of equity and carrying amount
České aerolinie, a.s. *	2 735 510	2 174 999	2.94	63 945	8 034	80 340	-16 395
PPF banka, a.s. *	500 021	1 266 733	10.35	131 107	19 822	207 766	-76 659
Amortised deposit with West LB (EUR 15 mil.)						435 075	-
Total						723 181	
Total city boroughs						116 188	
TOTAL						839 369	-

* Figures on share capital and equity reported as of 31 December 2004

Current information on České aerolinie, a.s. and PPF banka a.s. was not available as of 31 December 2005.

In April 2005, the term deposit in Deutsche Bank AG was terminated (see below). The principal balance (EUR 45 million) together with interest (EUR 626 thousand) was transferred to the current account in Deutsche Bank.

The City Council decided to dispose of 160 shares of Hasičská vzájemná pojišťovna from the asset portfolio. The City decided to dispose of these shares, due to the legal dispute over their ownership with Hasičský záchranný sbor ČR that arose at the

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transformation of the shares into the book-entry form and their subsequent transfer. The shares were attributed a zero value based on the appraisal performed by EPIC Securities, a.s.

In October 2005, the extraordinary General Meeting of PPF Bank, a.s. was held and approved an increase in the share capital of the entity without the City's participation. Thus, the equity investment of the City in this entity decreased from 10.35 percent to 6.73 percent. The share capital of PPF Bank increased from CZK 500,021 thousand to CZK 769,004 thousand (an increase of CZK 268,983 thousand). The increase in the share capital was effected through the subscription for 384,262 ordinary registered shares of the company in the book entry form with a nominal value of CZK 700 each.

The equity investment of the City in České aerolinie, a.s. and PPF banka a.s. is lower than the carrying value of the equity investments of the City in these companies.

As of 31 December 2005, the City held an 11 percent equity investment in PVA, a.s., a 5 percent equity investment in Bohemia Bingo, a.s. in liquidation, and a 1.23 percent equity investment in Chemapol Group, a.s. These equity investments were remeasured at fair value on the basis of an expert third-party appraisal as of 31 December 2005. The fair value was established at zero.

At the balance sheet date, no detailed information on other non-current assets of individual boroughs was available.

(CZK thousand)

	31 December 2004						
	Share capital	Equity	Ownership percentage	The City's share of equity	Number of shares	Carrying amount	Difference between share of equity and carrying amount
České aerolinie, a.s.*	2 735 510	1 754 368	2,94	51 578	8 034	80 340	-28 762
PPF banka a.s.*	500 021	1 164 586	10,35	120 535	19 822	165 995	-45 460
Amortised deposit at Deutsche Bank AG	-	-	-	-		- 1 370 925	-
Amortised deposit at West LB	-	-	-	-		- 456 975	-
Total						2 074 235	
Total city boroughs						146 194	-
TOTAL						- 2 220 429	-

* Figures as of 31 December 2003

In 2004, the City held an 11 percent equity investment in PVA, a.s., a 5 percent equity investment in Bohemia Bingo, a.s. in liquidation, a 1.23 percent equity investment in Chemapol Group, a.s. and a 0.05 percent equity investment in Hasičská vzájemná pojišťovna, a.s. These equity investments were remeasured at fair value on the basis of an expert third-party appraisal as of 31 December 2004. The fair value was established at zero.

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6. RECEIVABLES

	(CZK thousand)	
	31 December 2004	31 December 2005
Customers	6 302 859	5 808 426
Operating prepayments made	1 818 746	1 828 067
Receivables from budgetary income	373 197	415 886
Other receivables	275 536	267 740
Receivables from association members	37 950	37 949
VAT	0	137 783
Other taxes and charges	1 934	3 662
Receivables from employees	2 745	3 239
Other receivables	827 815	937 101
Provisions	-138 056	-121 266
TOTAL	9 502 726	9 318 587

Operating prepayments made principally include prepayments for services.

Other receivables include comprehensive leases of land, buildings and equipment.

The City and the boroughs do not charge provisions against uncollectible receivables in the course of their principal activities. As part of taxable activities, only the city boroughs, not the City itself, recognise provisions pursuant to the Provisioning Act 593/1992 Coll. As such, the provisions of CZK 121,266 thousand and CZK 138,056 thousand held against uncollectible receivables as of 31 December 2005 and 2004, respectively, are not fully representative of the amount of doubtful debts.

Aging Analysis of Receivables - Customers

31 December 2005

	(CZK thousand)					
	Before due date	0 – 30 days	30 – 60 days	Up to one year	1 year and greater	TOTAL
The City	628 288	28 639	10 073	45 243	355 542	1 067 785
City Boroughs	3 817 043	53 617	63 824	190 930	615 227	4 740 641
TOTAL	4 445 331	82 256	63 897	236 173	970 769	5 808 426

31 December 2004

	(CZK thousand)					
	Before due date	0 – 30 days	30 – 60 days	Up to one year	1 year and greater	TOTAL
The City	1 214 255	17 457	6 295	57 024	336 394	1 631 425
City Boroughs	3 683 506	51 742	85 144	204 045	646 997	4 671 434
TOTAL	4 897 761	69 199	91 439	261 069	983 391	6 302 859

List of Significant Receivables from Companies in the Bankruptcy Proceedings

	(CZK thousand)	
Entity	31 December 2004	31 December 2005
Eurocast, a.s.	173 252	173 252
Kalivoda, a.s.	49 995	49 995
Pražské veletrhy, spol. s.r.o.	42 926	42 926
Interstav, s.r.o.	30 402	30 402
Petra a.s.	9 587	15 308
KHYN – stavebně montážní servis	21 211	13 231
ACT, obchodní společnost	12 328	12 321

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7. FINANCIAL ASSETS

	(CZK thousand)	
	31 December 2004	31 December 2005
Financial assets	8 410 548	10 289 720
Budgetary funding and other accounts related to budgetary funding	11 613 825	14 988 261
TOTAL	20 024 373	25 277 981

Financial assets as of 31 December 2005 include securities that principally comprised certificates of deposit, and corporate and depository bills of exchange denominated in EUR, USD and CZK placed with several banks.

Bank accounts comprising budgetary funding include cash deposited on the following accounts as of 31 December 2005:

- The basic current account of CZK 11,690,301 thousand (of which the City itself: CZK 9,450,556 thousand); and
- Current accounts of cash funds of CZK 3,087,443 thousand (of which the City itself: CZK 1,713,079 thousand).

Financial assets of the City included CZK 389 million in cash as of 31 December 2005 which was not readily available.

These specifically include:

- Funds from wound-up state enterprises of CZK 88 million that the City is obliged to transfer to the National Property Fund in the future; and
- Other funds (guarantees provided by entities interested in future contracts, bails, etc.) of CZK 301 million.

Bank accounts comprising budgetary funding included cash deposited on the following accounts as of 31 December 2004:

- The basic current account of CZK 9,564,959 thousand (of which the City itself: CZK 7,659,442 thousand); and
- Current accounts of cash funds of CZK 1,862,586 thousand (of which the City itself: CZK 659,536 thousand).

Financial assets of the City included CZK 315 million in cash as of 31 December 2004 which was not readily available.

The above primarily includes:

- Funds from wound-up state enterprises of CZK 88 million that the City is obliged to transfer to the National Property Fund in the future; and
- Other funds (guarantees provided by entities interested in future contracts, bails, etc) of CZK 227 million.

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The provided temporary and refundable assistance consists of amounts granted to entities within the City's competence - boroughs, subsidised organisations, businesses, other organisations and individuals.

8. TEMPORARY ASSETS

	(CZK thousand)	
	31 December 2004	31 December 2005
Accrued income	43 901	1 539
Other temporary assets	14 360	9 456
TOTAL	58 261	10 995

9. FUNDS

	(CZK thousand)	
	31 December 2004	31 December 2005
Fixed asset fund	274 906 800	284 514 621
Current asset fund	65 038	62 798
Business activity fund	67 023	67 023
Total asset funds	275 038 861	284 644 441
Cash funds	1 561 264	2 827 432
Other financial funds	599	599
Total financial and cash funds	1 561 863	2 828 031
TOTAL	276 600 724	287 472 472
Gains and losses from the revaluation of assets and liabilities	-2 267 276	-2 857 157

On the basis of a valuation arrived at by a reasonable estimate made by a third party, the open derivative transactions were valued at CZK (2,865 billion) as of 31 December 2005 (2004: CZK (2,008 billion). This value was recognised on the face of the balance sheet in account no. 909 'Valuation gains and losses from the revaluation of assets and liabilities'. Gains and losses from the revaluation of assets and liabilities also include foreign exchange rate differences arising from the retranslation of foreign currency bills of exchanges and deposits.

10. ACCUMULATED LOSS

	(CZK thousand)	
	31 December 2004	31 December 2005
Profit or loss for the period	2 393 733	2 042 667
Retained earnings, accumulated loss	2 768 633	5 297 498
Transfer of receipts and disbursements recorded in previous years	-21 323 216	-19 288 460
Expenses and disbursements	-965 568	-965 826
Income and receipts	337 844	383 545
TOTAL	-16 788 574	-12 530 576

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Transfer of receipts and disbursements recorded in previous years

	(CZK thousand)	
	2004	2005
Operating deficit at 1 January	-17 275 747	-21 323 216
Receipts and disbursements	-5 169 526	2 106 395
Change in the reserve and development fund	765 059	103 206
Received loan repayments	-1 927	-2 370
Loans provided	607	3 503
Other receipts	-381	-128
Other disbursements	631	-752
Non-monetary accounting operations	358 068	-175 098
Operating deficit at 31 December	-21 323 216	-19 288 460

This analysis shows the sum of other than budgetary transactions which document the difference between the receipts and disbursements reported in the statement of receipts and disbursements as of 31 December 2005 and the balance of balance sheet account 933 'Transfer of receipts and disbursements recorded in previous years'.

'Expenses and disbursements' and 'Income and receipts'

The accounts 'Expenses and disbursements' and 'Income and receipts' are used exclusively for posting closing entries under the accounting principles and procedures for territorial self-governing units prior to the preparation of the year-end financial statements.

11. RESERVES

Statutory reserves represent reserves for repairs of tangible fixed assets pursuant to the Provisioning Act 593/1992 Coll.

	(CZK thousand)	
	31 December 2004	31 December 2005
TOTAL	62 189	10 873

12. CURRENT BANK LOANS

	(CZK thousand)	
	31 December 2004	31 December 2005
Total – the City	0	0
Total city boroughs	7 809	11 985
TOTAL	7 809	11 985

13. LONG-TERM PAYABLES AND LOANS AND RECEIVED INTER-BUDGETARY REFUNDABLE FINANCIAL ASSISTANCE

	(CZK thousand)	
	31 December 2004	31 December 2005
Bonds issued	16 272 050	15 731 850
Long-term bank loans	15 954 108	17 317 033
Long-term prepayments received	13 171	101
Other long-term payables	1 051 093	1 080 826
Received inter-budgetary refundable financial assistance	487 482	453 114
TOTAL	33 777 904	34 582 924

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Issued Bonds

	(CZK thousand)	
	31 December 2004	31 December 2005
First issue of euro notes within the EMTN programme	5 179 050	4 930 850
Third issue of bonds	5 000 000	5 000 000
Second issue of bonds	6 093 000	5 801 000
TOTAL	16 272 050	15 731 850

The First Issue of Euro Notes within the EMTN programme

In February 2003, the City Council approved the first issue of the City's euro notes in the amount of EUR 170 million under the EMTN (EURO MEDIUM TERM NOTE) programme. On 11 March 2003, an amount of EUR 169 million (CZK 5,324 billion) was credited to the current account of the City.

Basic information	
Date of issue	11 March 2003
Date of settlement	19 March 2003
Date of maturity	19 March 2013
Coupon	4.25 % p.a. payable annually
Issue price	99.123 % of nominal value
Net commission	0.25 %
Net issue price	98.873 %
Lead manager of the issue	Deutsche Bank AG

The proceeds of the issue are used to finance the removal of flood damage and transportation investments.

In March 2003, the Board of the City Council approved a swap transaction designed to convert the payable arising from the first issue of euro notes into Czech crowns while eliminating the associated foreign exchange and interest rate risks.

This transaction has been implemented with Deutsche Bank AG. A description of swap transactions is provided in Note 35.

The Third Issue of Bonds

On 15 May 2001, the City placed the third issue of bonds with an aggregate nominal value of CZK 5,000,000 thousand and a 10 year maturity.

- CZK 3,000,000 thousand with a floating interest rate of 6M PRIBOR + 0.32 percent p.a. payable semi-annually as of 15 May and 15 November of the relevant year:

Basic information	
Class	Bond
Type	Bearer share
Form	Book-entered
ISIN	CZ0001500094
Nominal value	CZK 1,000,000
Number of pieces	3,000
Total value	CZK 3,000,000,000
Markets	Prague Stock Exchange

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- CZK 2,000,000 thousand with a fixed interest rate of 6.85 percent p.a. payable as of 15 May of the relevant year.

Basic information	
Class	Bond
Type	Bearer share
Form	Book-entered
ISIN	CZ0001500086
Nominal value	CZK 1,000,000
Number of pieces	2,000
Total value	CZK 2,000,000,000
Markets	Prague Stock Exchange

Net proceeds from the bond issue are used to finance the transport infrastructure (modernisation and renewal of the Metro rolling stock and funding of the inner ring).

The obtained finance was included in the City's capital expenditure budget designed for the funding of the above construction project in 2001 and 2002.

The Second Issue of Bonds

The second issue of bonds of EUR 200 million with maturity in 2009 and a coupon of 4.625 percent was launched to the market in May 1999.

	EUR	CZK thousand
Total issue	200 000 000	7 430 000
4.625 % discount	(6 070 000)	(225 500)
Income – selling price of the bonds at 96.965 %	193 930 000	7 204 500
Selling and subscription fees at 2 %	(4 000 000)	(148 600)
Other charges	(167 059)	(6 206)
Credited to the City's accounts	189 762 941	7 049 694

The discount was amortised for a period of 10 years over the life of the second issue.

The finance obtained from the second issue of the City's bonds was partly used to repay the first issue of bonds and partly included in the budget and used to cover budgetary expenditure and to purchase short-term certificates of deposit.

Use of the Proceeds from the Second Bond Issue

Project	(CZK thousand)		
	2001	2002	Total
Dopravní podnik – transport constructions	1 139 187	635 256	1 774 443
Defence Department – anti-flood measures	0	20 618	20 618
Municipal Investor's Department			
- Purchase of land for construction of apartment buildings	49 825	0	49 825
- Anti-flood measures	3 836	0	3 836
- Malešice – Počernická street	0	10 365	10 365
TOTAL	1 192 848	666 239	1 859 087

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Long-Term Bank Loans

	(CZK thousand)	
	31 December 2004	31 December 2005
Loan from EIB for the renovation of the Metro system after the flooding in 2000 with maturity in 2003 - 2023	2 539 680	2 539 680
Loan from EIB – city infrastructure – B project mature in 2003 - 2033	2 242 392	2 242 392
Loan from EIB for Dopravní podnik hl. m. Prahy, a.s., B project	2 150 937	2 150 937
Loan from EIB for Dopravní podnik hl. m. Prahy, a.s., A project	2 318 340	2 277 929
Loan from EIB for Pražská vodohospodářská služba, a.s. mature in 2005 – 2015	1 647 884	1 647 884
Loan from EIB for Dopravní podnik hl. m. Prahy, a.s. –Praha II metro – AFI-A	650 000	2 278 462
Loan from Česká spořitelna a.s. mature from 2002	290 000	160 000
Loan from ING Barings mature in 2010	3 750 000	3 750 000
Total	15 589 233	17 047 284
Total city boroughs	364 875	269 749
TOTAL	15 954 108	17 317 033

European Investment Bank (“EIB”)

In June 1999, the City Council acknowledged the possibility to receive a loan facility of EUR 120,000 thousand from the EIB. This loan was drawn in two tranches:

- A tranche of EUR 50,000 thousand for the funding of water constructions. The loan is collateralised by a syndicated bank guarantee, arranged by Bank Austria Creditanstalt Czech Republic, a.s., Deutsche Bank, AG, Prague branch, and Hypovereinsbank CZ, a.s. The loan facility was drawn in full in 2002.
- In 2001, the City Council approved the receipt of the latter tranche of the loan in the amount of EUR 70,000 thousand. Based on Amendment No. 1 of February 2003, this loan was used for the removal of damage caused by flooding in 2002. This loan is collateralised by a syndicated bank guarantee, arranged by West LB. The loan was drawn in full in 2004.

In December 1999, the City Council approved a loan facility of EUR 150,000 thousand from EIB for the funding of the construction of the Metro, specifically IV. C1 (nádraží Holešovice – Ládví). This loan facility was drawn in two portions:

- Loan in the amount of EUR 75,000 thousand for the funding of the construction of Metro, specifically IV.C1 line (Nádraží Holešovice – Ládví). In January 2001, bodies of the City approved the Contract for the Provision of the Syndicated Bank Guarantee arranged by ABN AMRO N.V.. The loan was not fully drawn, the remaining amount of EUR 7,300 is still to be drawn.
- Loan in the amount of EUR 75,000 thousand for the funding of the construction of Metro, specifically IV.C1 line (Nádraží Holešovice – Ládví). In November 2001, bodies of the City approved the Contract for the Provision of the Syndicated Bank Guarantee arranged by ABN AMRO N.V.. The loan was not fully drawn, the remaining amount of EUR 7,300 is still to be drawn.

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In February 2003, the City Council approved the receipt of a loan of EUR 80,000 thousand from the EIB for the renovation and refurbishment of the Metro, due to the damage caused by the flooding in August 2002. The loan was drawn in full in 2003. The EIB did not require any form of collateral for this loan.

In September 2003, the City entered into a contract with the EIB on funding the Metro Prague II-AFI-A project for the construction of the section of IV.C2 line (Ládví – Letňany). During the year ended 31 December 2005, two tranches of CZK 830,000 thousand and CZK 798,462 thousand were drawn. The EIB did not require any form of collateral for this loan.

Česká pojišťovna a.s.

In 2001, the City entered into a loan contract with CM-CREDIT for the refinancing of expenses involved in purchasing the portfolio of classified assets of První městská banka a.s. and its management.

During 2001, this contract was transferred from CM-CREDIT to Česká pojišťovna a.s.

Under the valid contract, CZK 130,000 thousand was repaid in 2005 and 2004.

ING Barings

In August 1998, the City entered into a contract for a loan facility of USD 105 million with ING Barings. During 2000, the loan was restructured and translated into CZK. The loan facility was drawn in full in 2000.

Since 2001, the funds of the City have been deposited on the bank or other accounts, determined for this purpose. Every year, a 'financial reserve' is created in the budget of the City for the future repayment of loans and bonds including interest.

The 'financial reserve' for the repayment of the loans in the preparation of the budget means that this amount will not be used in the current year to cover the budget disbursements, but it will remain deposited and further increased on the accounts that are determined for this purpose.

Other Long-Term Payables

Other long-term payables included the City's payables to non-banking entities.

The principal long-term payables of the City included:

<u>Entity</u>	(CZK thousand)	
	<u>31 December 2004</u>	<u>31 December 2005</u>
INCHEBA PRAHA spol. s.r.o.	211 612	201 612
Mediterra s.r.o.	170 614	165 935
DELTA CLIMATIZER, a.s.	164 220	167 070

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Received Inter-budgetary Refundable Financial Assistance

Received inter-budgetary refundable financial assistance primarily consists of loans from the Ministry for Regional Development, the State Environmental Fund, the State Fund for Housing Development and the Housing Renovation and Modernisation Fund.

	(CZK thousand)	
	31 December 2004	31 December 2005
State Fund for Housing Development	222 762	239 702
Housing renovation and modernisation fund	130 000	82 000
State environmental fund	54 576	39 848
Total – the City	407 338	361 550
Total – city boroughs	80 144	91 564
TOTAL	487 482	453 114

Calculation of the Debt Service Ratio

The City or boroughs cannot accept a loan if the debt service exceeds 15 percent of the prior year's budget.

The debt service includes interest, instalments of principals, bills of exchange, lease instalments and portion of the instalment for one year for one-off instalments payable after the expiration of the agreed period of time.

The prior year's budget is defined as the aggregate achieved budget volume of income for the previous calendar year (total income after consolidation - actual balance for the prior year).

The data referred to above are used for the calculation of the 'Debt Service Ratio'.

Calculation of the Debt Service Ratio

	(CZK thousand)	
	2004	2005
	Actual balance	Actual balance
1 Debt base (income)	37 813 902	41 830 919
2 Interest	1 058 764	1 097 718
3 Principal amount repayments	215 602	345 343
4 Lease payments	8 809	5 400
Total debt service cost	1 283 175	1 448 461
Calculation of the debt service	3 %	3 %

The debt service ratio of the City was 3 percent for the year ended 31 December 2005 (2004: 3 percent).

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Pledged Assets and Guarantees

Kongresové centrum Praha, a.s. ('KCP')

In April 2005, KCP received a loan of CZK 700 million from Komerční banka, a.s. This loan refinances the original loan provided to this company by Živnostenská banka, a.s. of CZK 800 million (Resolution of the City Council No. 16/03 of 24 February 2000). On 19 April 2005, the City Council approved the proposed wording of the "Guarantee Statement" for Komerční banka, a.s. for the loan of CZK 700 million in favour of this bank.

In June 2003, the City Council approved the provision of a guarantee for a loan to KCP payable as of 31 December 2006 in the form of the guarantee statement to PPF banka, a.s. (Resolution of the City Council No. 09/09 of 26 June 2003). This receivable was transferred to Dexia – Komunálkredit by PPF Bank in the year ended 31 December 2005.

The State Fund for Housing Development

Based on the Resolution No. 08/10 of 29 May 2003, the City Council approved the issuance of two blank promissory notes that do not indicate the maturity date, the bill sum and payment place to the order of the State Fund for Housing Development in order to collateralise the loan received from this institution.

At the balance sheet date, the City has no information available on pledges and guarantees issued by the boroughs.

14. PAYABLES AND TEMPORARY LIABILITIES

	(CZK thousand)	
	31 December 2004	31 December 2005
Suppliers	1 215 089	1 914 997
Advances received	1 754 388	2 056 383
Other payables	1 128 187	1 550 418
Payables from fixed term transactions and options	2 007 520	2 864 944
Payables to association partners	124	4 127
Payables to employees	66 905	61 593
Payables arising from social security and health insurance	96 400	81 608
Taxation	1 194 843	891 198
Settlement of subsidy overpayments	3 550 591	920 642
Other payables	545 010	529 517
Total	11 559 057	10 875 428
Temporary liabilities	2 111 502	2 881 263
TOTAL	13 670 559	13 756 691

The advance payments received are largely composed of prepayments for services.

The settlement of subsidy overpayments primarily includes payables under the financial relation with the sponsor's (i.e., the City's) budget. These payables indicate the relations from the financial settlement between the sponsor and subsidised organisations and relations between the business (taxable) activities and income from the budget

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(unperformed transfers of profit from taxable activities to major operations, depreciation and net book values of assets claimed in tax expenses) and hence the above balances do not constitute payables to third parties.

Of the total settlement of subsidy overpayments, payables of boroughs to the Metropolitan Authority for the unpaid share of the income tax under the preliminary assessment as of 31 December 2005 amounted to CZK 697 million (CZK 545 million as of 31 December 2004). The difference is composed of funds to be remitted to the boroughs' budgets which have not yet been remitted.

Temporary liabilities primarily include unrealised foreign currency losses of CZK 2,144 million (CZK 1,582 million as of 31 December 2004) arising from the re-translation of issued bonds and bank deposits.

15. AGGREGATE INCOME

(CZK thousand)

	2004	2005	
	Actual	Adjusted budget	Actual
Tax income	33 354 055	34 160 123	37 959 698
Non-tax income	2 624 313	1 924 760	2 255 830
Capital income	26 732	19 459	18 744
Subsidies	10 719 563	10 738 221	10 415 569
Transfers from own funds	2 655 661	4 458 706	4 142 355
TOTAL	49 380 324	51 301 269	54 792 196

16. TAX INCOME

(CZK thousand)

	2004	2005	
	Actual	Adjusted budget	Actual
Personal income tax	10 431 358	10 394 462	11 256 867
Corporate income tax	9 104 218	8 825 762	10 203 250
General in-country tax on goods and services	11 720 368	12 996 916	14 160 526
Fees and charges for environmental pollution	619 726	630 263	708 559
Local fees and other charges on selected activities and services	711 859	626 710	750 872
Administration fees	379 488	343 401	478 724
Tax on assets	387 038	342 609	400 900
TOTAL	33 354 055	34 160 123	37 959 698

In 2005, tax income accounts for 69 percent of total income of the City. With effect from 2002, regions and municipalities have been allocated this tax income. Tax income is transferred to the City from taxation authorities.

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17. NON-TAX INCOME

	(CZK thousand)		
	2004	2005	
	Actual	Adjusted budget	Actual
Income from own activity and penalties	325 338	229 726	266 919
Overpayments of organisations with direct relation, refunds of transfers	226 642	177 013	187 381
Income from shares in profit, dividends and realised foreign exchange gains	328 564	353 500	428 948
Interest income	1 281 598	1 071 101	1 215 755
Other non-tax income	462 171	93 420	156 827
TOTAL	2 624 313	1 924 760	2 255 830

In the year ended 31 December 2005, non-tax income accounts for 4 percent of the City's aggregate income.

Income from own activity primarily includes income from the provision of services of the City (e.g. payments for appraisals, contractual payments for collection and use of packaging waste material by EKO-KOM, a.s., sale of regulations for provided information according to Act No. 106/1999 Coll. on the Free Access to Information, income from the operation of 14 P+R parking fields, fees for information search, xerocopies, photocopies, etc.)

Penalties include penalties and fines for violation of generally binding legal regulations and notices.

Organisations with direct relation are defined as subsidised organisations and organisational branches founded by the City.

Interest income represents the most significant component of non-tax income. For the years ended 31 December 2005 and 2004, its increase was linked to the financial strategy pursued by the City, the use of the most advantageous available financial products and cash income associated with swap transactions.

Other non-tax income principally includes received compensation for damage, gifts, refunds of prepayments and repayments of lent funding, specifically from the citizens, formed entities, municipalities, businesses and public service enterprises relating to the previous year and other non-recurring income.

18. CAPITAL INCOME

	(CZK thousand)		
	2004	2005	
	Actual	Adjusted budget	Actual
Income from the sale of fixed assets	525	0	797
Other capital income	26 207	19 459	17 947
Total	26 732	19 459	18 744

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Capital income principally includes received gifts and contributions to acquire fixed assets.

19. RECEIVED SUBSIDIES AND TRANSFERS FROM OWN FUNDS

Subsidies

	(CZK thousand)		
	2004	2005	
	Actual	Adjusted budget	Actual
Non-investment subsidies from public budgets at the central level	9 599 896	9 458 120	9 457 021
Non-investment subsidies from public budgets at the local level	4 596	2 570	4 573
Non-investment foreign subsidies	0	2 362	2 399
Non-investment subsidies from state financial assets	455	611	611
Total non-investment subsidies	9 604 947	9 463 663	9 464 604
Investment subsidies from public budgets at the central level	1 080 616	1 274 558	950 965
Investment subsidies from state financial assets	34 000	0	0
Total investment subsidies	1 114 616	1 274 558	950 965
TOTAL	10 719 563	10 738 221	10 415 569

In the year ended 31 December 2005, received subsidies account for 19 percent of the total actual income of the City.

Funding from the state budget was provided principally via the Finance Ministry, the Ministry for Regional Development, Culture Ministry, Ministry of the School System, Youth and Physical Education and Czech State Funds.

Received subsidies predominantly comprise:

- Non-investment subsidies from the state budget which include funding for operating and capital expenditure of schools and school facilities transferred from the Czech Ministry of the School System, Youth and Physical Education to the City in 2001, from the Czech Ministry of Finance and other government departments;
- Non-investment subsidies from state financial assets; and
- Non-investment subsidies from state funds.

Non-investment Subsidies from Public Budgets at the Central Level

	(CZK thousand)	
	2004	2005
	Actual	Actual
Ministry of the School System, Youth and Physical Education	6 974 798	7 320 193
Finance Ministry	2 052 105	1 728 456
Other Czech ministries and state funds	572 993	408 372
Total	9 599 896	9 457 021

Ministry of the School System, Youth and Physical Education

The use of the received non-investment subsidies from the Ministry of the School System, Youth and Physical Education of the Czech Republic is set out in Note 20.

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Czech Finance Ministry

The non-investment subsidies from the Finance Ministry were used for the following purposes:

	(CZK million)	
	2004	2005
	Actual	Actual
State administration	411 965	436 977
Social allowances	690 000	644 625
Social care centres and retirement centres	328 305	346 455
School system	143 724	138 866
Other subsidies	478 111	161 533
Total	2 052 105	1 728 456

Investment Subsidies from Public Budgets at the Central Level

	(CZK thousand)	
	2004	2005
	Actual	Actual
State Fund for Transport Infrastructure	311 355	717 532
State Fund for Housing Development	184 950	93 819
Czech Finance Ministry	357 916	43 967
State Environmental Fund	43 476	1 881
Czech Interior Ministry	2 147	0
Other Czech ministries	180 772	93 766
TOTAL	1 080 616	950 965

Transfers from Own Funds

Transfers from own funds predominantly include transfers from own funds of activities that are subject to taxation, or from other own funds to income from principal activities.

20. TOTAL DISBURSEMENTS

	(CZK thousand)		
	2004	2005	2005
	Actual	Adjusted budget	Actual
Total non-investment disbursements	35 401 180	36 891 976	35 282 564
Total investment disbursements	19 148 670	19 092 068	17 403 237
Total	54 549 850	55 984 044	52 685 801

Disbursements are primarily made in the form of the actual disbursements, subsidies (eg, to business entities, not-for-profit and similar organisations) and transfers (eg, subsidised and similar organisations, international and supranational organisations).

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An Analysis of Disbursements by Chapter

(CZK thousand)

Chapter	2005		Total
	Non-investment disbursements	Investment disbursements	
Municipal development	218 215	2 218 115	2 436 330
Municipal infrastructure	2 158 268	2 890 342	5 048 610
Transportation	10 684 869	7 854 147	18 539 016
School system, youth and self-administration	9 746 757	1 592 184	11 338 941
Health system and social care	2 547 823	401 621	2 949 444
Culture, sports and tourism	1 490 697	623 050	2 113 747
Security	1 040 346	264 087	1 304 433
Economy	727 455	1 045 826	1 773 281
Internal administration	4 279 247	488 603	4 767 850
Administration of financial issues	2 388 887	25 263	2 414 150
Total	35 282 564	17 403 237	52 685 801

(CZK thousand)

Chapter	2004		Total
	Non-investment disbursements	Investment disbursements	
Municipal development	574 095	3 006 532	3 580 627
Municipal infrastructure	2 171 098	2 219 472	4 390 570
Transportation	10 431 680	9 235 154	19 666 834
School system, youth and self-administration	9 426 238	1 424 661	10 850 899
Health system and social care	2 439 357	579 650	3 019 007
Culture, sports and tourism	1 510 639	392 424	1 903 063
Security	992 972	202 712	1 195 684
Economy	1 037 937	1 511 887	2 549 824
Internal administration	4 125 504	505 865	4 631 369
Administration of financial issues	2 691 660	70 313	2 761 973
TOTAL	35 401 180	19 148 670	54 549 850

In 2005, the largest volume of disbursements related to transport (36 percent) and school system, youth and self-administration (21 percent).

Transportation

Non-investment Disbursements

(CZK thousand)

	2004	2005
	Actual	Actual
Technical administration of roads		
- Winter maintenance	314 434	327 125
- Repair and maintenance of roads	959 075	1 022 193
- Cleaning and greenery	404 341	409 126
- Other	239 689	215 449
Total	1 917 539	1 973 893
Dopravní podnik hl. m. Prahy, a.s.		
- Subsidies to offset the expenses of Dopravní podnik, a.s. (from the 'transportation' chapter)	7 928 463	8 045 199
Other current disbursements (including boroughs)	585 678	665 777
Total non-investment disbursements	10 431 680	10 684 869

In 2005, the ordinary expense of technical administration of roads predominantly provided for repairs and maintenance of roads (including road signs and traffic lights), winter maintenance of roads to keep them open to traffic, cleaning (including drains), maintenance of greenery, liquidation of dumping sites, etc.

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Investment Disbursements

	(CZK thousand)
	2005
	Actual
The City Investor Department	
- Radlická – Strahovský tunnel	611 511
- Vysočanská radial road	331 352
- Strahovský tunnel - 2 rd st.	181 308
- Strahovský tunnel - 3 rd st.	165 150
- Chodovská radial road	113 630
- KOMOKO	110 517
- Špejchar – Pelc/Tyrolka	94 860
- Turkova	79 240
- Other (below CZK 50 million on an individual basis)	55 219
Total	1 742 787
Technical administration of roads	
- MÚK – connection of Malá and Velká Chuchle	299 212
- Southern junction – multiple constructions	117 694
- Sokolovská	114 035
- Rašínovo embankment	80 000
- Mostecká - Bohdalec	75 329
- Other (below CZK 70 million on an individual basis)	715 676
Total	1 401 946
Dopravní podnik hl. m. Prahy, a.s.	
- IV. section of the C2 line – Ládví - Letňany	2 368 462
- Renovation of metro trains	900 000
- Modernisation of trams	300 700
- Metro station – Hostivař depot	250 000
- IV. section of the C1 line – nádraží Holešovice - Ládví	240 000
- exchange of cables on A and C line	140 000
- Renovation of Sokolovská tram road	120 000
- Renovation of B line security system	100 000
- Other (below CZK 100 million on an individual basis)	197 491
Total	4 616 653
Other investment disbursements (including boroughs)	92 761
TOTAL	7 854 147

School System, Youth and Self-Administration

Non-investment Disbursements

In the year ended 31 December 2005, this area was financed using funds from the City's budget and from the state budget provided by the Ministry of the School System, Youth and Physical Education, the Finance Ministry and the Ministry of Culture.

Non-investment disbursements principally include salaries, other staff costs and insurance charges, costs of teaching aids and education of teachers.

Investment Disbursements

In the area of investment disbursements, funding was principally invested in renovating and modernising buildings.

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21. OPERATING DISBURSEMENTS

Total of the above mentioned non-investment disbursements predominantly include disbursements related to the operation of the Metropolitan Authority and individual boroughs and disbursements for repairs and maintenance of fixed assets.

An analysis of operating disbursements by type

(CZK thousand)

	2004		2005	
	Actual	Adjusted budget	Adjusted budget	Actual
Wages and other work-related payments and obligatory insurance paid by employers	3 291 097	3 386 280	3 386 280	3 316 154
Purchased material	418 493	410 848	410 848	367 991
Purchased water, fuel and energy	138 310	168 746	168 746	152 268
Purchased services	3 527 659	4 032 378	4 032 378	3 736 519
Other purchases	2 745 557	2 603 669	2 603 669	2 451 275
Interest and other financial expenses	2 296 066	2 427 217	2 427 217	2 211 630
Other operating expenses	295 861	354 844	354 844	350 844
Total	12 713 043	13 383 982	13 383 982	12 586 681

Purchased services specifically include costs of telecommunication, leasing, consultancy, advisory and legal services, training and educational services, data processing services, services of financial institutions, purchases of other services, etc.

Other purchases principally include costs of repairs and maintenance of fixed assets (winter maintenance of roads to keep them open for traffic, cleaning of roads and drainage outlets, greenery maintenance, liquidation of illegal dumping sites, repairs and maintenance of roads and other activities relating to the property administration of roads owned by the City).

Other operating disbursements predominantly include prepayments paid, principals, guarantees and disbursements related to non-investment purchases, contributions, refunds and gifts.

22. NON-INVESTMENT SUBSIDIES, ALLOWANCES AND OTHER TRANSFERS TO SELECTED ENTITIES

Total of the above mentioned non-investment disbursements are subsidies, allowances and other transfers to selected entities.

(CZK thousand)

	2004		2005	
	Actual	Adjusted budget	Adjusted budget	Actual
Dopravní podnik, a.s. (Transport Company)	7 973 463	8 090 199	8 090 199	8 090 199
Technical administration of roads	1 917 539	1 977 167	1 977 167	1 973 893
Municipal Police	697 600	728 737	728 737	728 732
Emergency Medical Services	199 046	204 645	204 645	204 645
City library	197 417	205 178	205 178	205 178
Zoo	108 594	109 176	109 176	109 176

Other entities receiving subsidies/allowances/transfers are schools and schooling facilities, retirement homes, homes with special care, theatres, galleries, etc.

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The amount of provided funds is below CZK 100,000 thousand per year on an individual basis.

23. RECEIPTS, DISBURSEMENTS AND FINANCING

(CZK thousand)			
	2004	2005	2005
	Actual	Adjusted budget	Actual
Total receipts	49 380 324	51 301 269	54 792 196
Total disbursements	54 549 850	55 984 044	52 685 801
Balance of receipts and disbursements	-5 169 526	-4 682 775	2 106 395
Financing	5 169 526	4 682 775	-2 106 395

24. INCOME STATEMENT

(CZK thousand)		
	2004	2005
	Actual	Actual
Total income	13 895 933	10 242 502
Total expenses	10 316 288	7 297 077
Operating surplus/(deficit) before tax	3 579 645	2 945 425
Tax	1 185 912	902 758
Surplus/(deficit) after tax	2 393 733	2 042 667

25. SALES OF GOODS AND SERVICES

Sales are generated from taxable activities of the City and primarily consist of proceeds from the lease of immovable assets.

26. PROCEEDS FROM THE SALE OF FIXED ASSETS AND MATERIAL

Gains from the sale of fixed assets do not indicate the actual result of the sales as the net book value of the sold fixed assets was not charged to expenses in respect of certain sales.

27. OTHER OPERATING INCOME

Other operating income primarily includes interest income and income from contractual fines and penalties.

28. PROFIT ON FINANCIAL TRANSACTIONS

(CZK thousand)		
	31 December 2004	31 December 2005
Profit on the sale of securities	14 840	0
Income from financial assets	53 706	1 020
Total	68 546	1 020

The profit on financial transactions primarily consists of income from non-current and current financial assets and proceeds from the sale of securities.

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29. COSTS OF GOODS, PRODUCTS AND SERVICES SOLD

Set out below is an analysis of the costs of goods and services sold:

	(CZK thousand)	
	31 December 2004	31 December 2005
Material	29 720	25 168
Energy	26 743	32 834
Other non-storable supplies and goods sold	1 656	5 724
Repairs and maintenance	3 505 065	2 684 246
Other costs and services	835 435	935 851
Total	4 398 619	3 683 823

Other costs and services principally include fees for asset administration paid to administrators.

30. DEPRECIATION

Depreciation can be charged only on assets used within taxable activities. However, depreciation can be charged only on part of these assets (assets leased to Pražská vodohospodářská společnost, a.s. and property of selected apartment buildings). Hence, depreciation was not charged on all fixed assets. It is not possible to estimate the amount of depreciation charges on all commercially used assets due to their quantity.

31. OTHER OPERATING EXPENSES

Other operating expenses predominantly include other taxes and fees, interest expense, deficits, damage and other operating charges.

32. INCOME TAXES

The estimated income tax is determined pursuant to the income statement of the City and city boroughs. The ultimate tax amount (2005: 26 percent of the profit before tax, 2004: 28 percent) is calculated according to statutory requirements by 30 June of the year following the accounting period to which the tax relates. The difference between the actual calculated tax and the tax recorded to expenses prior to the preparation of the year-end financial statements is charged against the profit or loss in the following year. The tax paid by the municipality is also its receipt and therefore it is allocated to the receipts of the City's budget, the only exception being paid withholding tax which represent receipts of the State Budget.

With effect from 2000, the proportional amount of city boroughs in the City's tax liability has been refunded to the City boroughs as a subsidy.

33. RELATED PARTY TRANSACTIONS

Related parties include subsidised organisations and organisational branches formed by the City and business companies in which the City holds controlling or significant interest. Business companies principally consist of Dopravní podnik, a.s. (The City Transport Company).

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The statement of receipts and disbursements contains the following related party transactions:

Receipts

		(CZK thousand)	
The City's receipts from dividends		308 515	409 645
Of which:			
	Pražská energetika Holding, a.s.	143 153	150 541
	Pražská plynárenská Holding, a.s.	125 999	141 538
	Pražská teplárenská Holding, a.s.	39 363	61 425
	PPF banka, a.s.	0	56 141
Total city boroughs		19 251	18 230
TOTAL		327 766	427 875
Total payments to related organisations		226 642	170 922

At the balance sheet date, no information on individual receipts from dividends of boroughs was available.

Disbursements

		2004	2005
		Actual	Actual
Subsidies to business companies	investment	5 565 153	4 665 235
of which: subsidies to Dopravní podnik, a.s.		5 511 382	4 636 654
	non-investment	9 036 904	9 214 286
of which: subsidies to Dopravní podnik, a.s.		7 973 463	8 090 199
Subsidies to non-for-profit and similar organisations	investment	27 232	76 529
	non-investment	579 873	4 120 113
Subsidies to subsidised organisations	investment	1 037 016	861 337
Transfers to subsidised and similar organisations	non-investment	11 597 419	8 423 522

Transfers predominantly include contributions and subsidies to subsidised organisations and universities.

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34. BALANCE SHEET FOR ESTABLISHED SUBSIDISED ORGANISATIONS

Total assets and liabilities of subsidised organisations established by the City and boroughs that are not included in the balance sheet of the City are as follows:

	(CZK thousand)	
	31 December 2004	31 December 2005
ASSETS		
Fixed assets		
Tangible fixed assets	23 884 955	25 701 917
Intangible fixed assets	212 132	224 517
Non-current financial assets	0	50
Accumulated depreciation of fixed assets	-9 314 919	-9 997 546
Total	14 782 168	15 928 938
Current assets		
Inventory	194 705	186 532
Receivables	555 094	560 168
Financial assets	2 619 614	2 770 608
Other assets	50 777	54 956
Total	3 420 190	3 572 264
TOTAL ASSETS	18 202 358	19 501 202

	(CZK thousand)	
	31 December 2004	31 December 2005
LIABILITIES		
Equity		
Equity funds	14 793 190	15 944 551
Financial funds	1 394 215	1 484 841
Results of operations		
Profit or loss for the period	144 921	84 262
Retained earnings	-125 293	-82 878
Total	16 207 033	17 430 776
Liabilities		
Reserves	6 060	3 115
Long-term payables	136 988	135 036
Short-term payables and temporary liabilities	1 851 977	1 928 860
Bank loans and borrowings	300	3 415
Total	1 995 325	2 070 426
TOTAL LIABILITIES	18 202 358	19 501 202

Major subsidised organisations of the City include, for example, the Zoo, the Prague Botanical Garden, the City's Emergency Medical Services, the City Gallery, the Observatory and Planetarium, the City Museum, the City's Library, and the Administration of Prague Cemeteries.

With effect from 2001, subsidised organisations established by the City have included high schools, art schools and special schools for teaching disabled children, which had been promoted by the Czech Ministry of the School System, Youth and Physical Education until 2000, and the City's organisations that operated as budget-driven entities by the end of 2000, specifically Retirement Centres and Social Care Centres.

35. CONTINGENT LIABILITIES

Legal Disputes and Charges

The City has been named as a defendant in numerous restitution claims and legal proceedings. The amount and likelihood of an unfavourable outcome of such claims and legal disputes cannot be determined.

In accordance with the accounting procedures for territorial self-governing units, branches and subsidised organisations, no contingent liabilities can be recognised in the financial statements of the City.

The most significant legal disputes include the following claims:

- Legal dispute for the clearance of plots of land at the Dolní Měcholupy cadastral area. In the event of an unfavourable outcome, the clearance will include the removal of the dumping site and the expenses will not exceed CZK 500 thousand.
- Removal of illegal constructions (piping of the Brusnice creek), the claimants require a refund of more than CZK 508 thousand.
- Legal dispute for CZK 567 thousand with ancillary fees.
- Legal dispute for damages exceeding CZK 2,000 thousand, required by the British tourist who suffered a serious injury after having been hit by the Christmas tree on Old Town Square in December 2003.
- Legal dispute for extradition of unjustified enrichment for the use of water structures. In the event of an unfavourable outcome the liability of the City would be CZK 4,000 thousand.
- Charge for the extradition of unjustified enrichment of CZK 4,000 with ancillary fees.
- Legal dispute for approximately CZK 5,000 thousand arising from performance without legal reason with respect to the alleged invalidity of the contract for the lease of non-residential premises.
- Legal dispute for partial refund of performance from the contract for the transfer of receivables due to the partial invalidity of this contract. In the event of an unfavourable outcome the City will have to pay approximately CZK 7,000 thousand.
- Approximately CZK 39 million relating to an unfavourable outcome for the City arising from its unjustified enrichment resulting from the use of land from 2002 to 2003.

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- Approximately CZK 79 million relating to an unfavourable outcome for the City arising from its unjustified enrichment resulting from the use of land from 2000 to 2002; and
- Approximately CZK 105 million relating to an unfavourable outcome for the City arising from its unjustified enrichment resulting from the use of land from 1996 to 2000.

Swap Transactions

The most significant change in derivative transactions of the City in 2005, as compared to 2004, relates to the fact that the City fully restructured the interest rate hedge of floating portion III. of the issue of the bonds of the City in the aggregate amount of CZK 3,000,000 thousand.

Other hedging transactions remained unchanged.

With a view of managing foreign exchange and interest rate risks arising from its commitments, the City entered into the following open derivative transactions as of 31 December 2005:

Česká pojišťovna a.s.

- Interest rate swap with a trade date of 14 December 2001 and a settlement date of 14 December 2006.

Payer of variable amount in EUR:	Česká pojišťovna, a.s.
Nominal amount:	CZK 660,000,000
Rate:	6 month PRIBOR
Payer of fixed amount in CZK:	City
Nominal amount	CZK 660,000,000
Rate:	6.9 % p.a. for 2005
	7.3 % p.a. for 2006

Česká spořitelna, a.s.

- Interest rate swap with an inception trade date of 15 May 2005 and a settlement date of 15 May 2011

Payer of fixed amount:	Česká spořitelna, a.s.
Nominal amount in CZK:	CZK 1,500,000,000
Rate:	6-month PRIBOR+ 0.32 % p.a.
Payer of variable amount in EUR:	City
Nominal amount in CZK:	CZK 1,500,000,000
Rate:	7.27 % p.a.

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COMMERZBANK

- Interest rate swap with an inception trade date of 15 May 2005 and a settlement date of 15 May 2011

Payer of fixed amount:	COMMERZBANK
Nominal amount in CZK:	CZK 1,500,000,000
Rate:	6-months PRIBOR + 0.32 % p.a.
Payer of variable amount:	City
Nominal amount in CZK:	CZK 1,500,000,000
Rate:	7.27 %

Deutsche Bank AG, the Prague branch

I.

Component (A)

- Cross currency swap with a trade date of 7 November 2001, inception trade date of 17 September 2001 and settlement date of 15 March 2006.

Payer of variable amount in EUR:	Deutsche Bank AG, Prague branch
Nominal amount:	EUR 7,500,000
Rate:	3-month EURIBOR
Payer of variable amount in CZK:	City
Nominal amount in CZK:	CZK 251,625,000
Rate:	3-month PRIBOR + 0.39 % p.a.

Component (B)

- CZK Rate Cap

Payer of equalisation amounts:	Deutsche Bank AG, Prague branch
Nominal value:	CZK 251,625,000
Cap rate:	6.75 % p.a.
Reference rate:	3-month PRIBOR + 0.39 % p.a.

II.

Component (A)

- Cross currency swap with a trade date of 30 November 2001, an inception trade date of 15 June 2002 and a settlement date of 15 June 2009.

Payer of fixed amount in EUR:	Deutsche Bank AG, Prague branch
Nominal amount:	CZK 134,000,000
Rate:	4.625 %
Payer of variable amount in CZK:	City
Nominal amount:	CZK 4,857,500,000
Rate:	6-month PRIBOR + 1.39 % p.a.

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- EUR – CZK forward with a settlement date of 15 June 2009

Payer of nominal amount in EUR:	Deutsche Bank AG, Prague branch
Nominal amount in EUR:	EUR 67,000,000
Payer of nominal amount in CZK:	City
Nominal amount in CZK:	CZK 2,207,650,000

- EUR – CZK forward with a settlement date of 15 June 2009

Payer of nominal amount in EUR:	Deutsche Bank AG, Prague branch
Nominal amount in EUR:	EUR 67,000,000
Payer of nominal amount in CZK:	City
Nominal amount in CZK:	CZK 2,428,750,000

Component (B)

- Cross currency swap with a trade date of 15 May 2001, an inception trade date of 15 June 2002 and a settlement date of 15 June 2009

Payer of nominal amount in EUR:	City
Nominal amount:	EUR 34,000,000
Rate:	4.625 %
Payer of fixed amount in CZK:	Deutsche Bank AG, Prague branch
Nominal amount:	CZK 1,232,500,000
Rate:	5.490 % p.a.

Component (C)

- Collar Rate Protection Transaction with a trade date of 11 February 2002, inception trade date of 15 June 2002 and a settlement date of 15 June 2009.

Amount:	CZK 4,857,500,000
Reference rate:	6-month PRIBOR + 1.39 %
Cap :	8.99 % p.a.
Floor:	5.77 % p.a.

III.

- Cross currency swap with a trade date of 12 March 2003, an inception trade date of 19 March 2003 and a settlement date of 19 March 2013

Payer of variable amount in CZK:	Deutsche Bank AG, Prague branch
Nominal amount:	EUR 170,000,000
Rate:	4.25 % p.a.
Payer of variable amount in CZK:	City
Nominal amount:	CZK 5,389,000,000
Rate for year 1 – 3:	3.95 % p.a.
Rate for year 4 – 10:	5.55 % p.a. – spread from the nominal amount in CZK, spread = 10 years CZK swap rate swap rate - 2 year CZK swap rate

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ABN-AMRO

I.

- Interest rate swap with a trade date of 17 September 2001, an inception trade date of 7 November 2001 and a settlement date of 15 March 2006

Payer of variable amount in CZK:	ABN-AMRO
Nominal amount:	EUR 7,500,000
Rate:	3-month EURIBOR
Payer of variable amount in EUR:	City
Nominal amount:	CZK 251,625,000
Rate :	3-month PRIBOR + 0.39 %

II.

- Interest rate swap with a trade date of 15 May 2001, an inception trade date of 15 June 2002 and a settlement date of 15 June 2009

Payer of variable amount in EUR:	ABN-AMRO
Nominal amount in EUR:	66,000,000 EUR
Rate:	4.625 %
Payer of variable amount in CZK:	City
Nominal amount CZK :	CZK 2,392,500,000
Rate :	6-month PRIBOR

III.

- Interest rate swap with an inception trade date of 15 June 2003 and a settlement date of 15 June 2009.

Payer of fixed amount	ABN-AMRO
Nominal amount in CZK:	CZK 2,283,000,000
Payer of fixed amount:	City
Nominal amount in EUR:	EUR 66,000,000

IV.

- Interest rate swap with an inception trade date of 15 June 2003 and a settlement date of 15 June 2009

Payer of fixed amount	ABN-AMRO
Nominal amount in CZK:	EUR 34,000,000
Rate:	4.63 %
Payer of fixed amount:	City
Nominal amount in EUR:	CZK 1,232,500,000
Rate:	5.49 %

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V.

- Collar Rate Protection Transaction with an inception trade date of 15 June 2003 and a settlement date of 15 June 2009

Amount:	CZK 2,392,500,000
Reference rate:	6-month PRIBOR
Cap :	8.58 % p.a.
Floor:	5.26 % p.a.

36. POST BALANCE SHEET EVENTS

The following events occurred subsequent to the balance sheet date that are material to the financial position of the City:

The City Council took into account the information on the right of lien on Jungmannova – Charvátova real estate provided for the benefit of a third party which was selected as new office premises for the employees of the Metropolitan Authority.

The City Council approved a non-cash investment of the movable assets of the City in the amount of CZK 104,260 thousand (movable assets described in and assessed by expert appraisal No. 397/125/2005 prepared on 27 December 2005) in the share capital of Obecní dům, a.s., with its registered office at nám. Republiky 1090/5, Prague 1.

The Board of the City Council approved contract No. 110/2006 for the provision of funding from the State Fund for Transportation Infrastructure for 2006 and approved the proposed increase in the budget of receipts and disbursements of the City in Chapter 03 'Transportation' by a special-purpose investment subsidy from the budget of the State Fund for Transportation Infrastructure in the aggregate amount of CZK 604,300 thousand for the City Investor Division of the Metropolitan Authority (of which Project No. 0053 - Vysočanská radial road in the amount of CZK 320,000 thousand and Project No. 4663 - MÚK PPO – Liberecká in the amount of CZK 284,300 thousand).

The City Council approved the increase in the City's budget of receipts and disbursements of 2006 in Chapter 03 'Transportation' by a special-purpose investment subsidy from the budget of the State Fund for Transportation Infrastructure in the amount of CZK 604,300 thousand for the City Investor Division of the Metropolitan Authority.

20 April 2006



Petr Hulinský
Deputy Mayor



Martin Trnka
Chief Executive of the Metropolitan Authority