

## **Articles of Association of**

# **České dráhy, a.s.**

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### **Full text of the Articles of Association**

Containing amendments approved by decision of the single shareholder on 16 January 2003, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 28/2003, N 36/2003). This wording of the Articles of Association takes effectiveness on 16 January 2003, also amendments included in the amendatory clause to NZ 28/2003, N 36/2003 dated 28 February 2003.

Containing amendments approved by decision of the single shareholder on 19 March 2003, included in the notarial deed drawn up by Mgr. Jiří Šindelář, notary in Příbram (NZ 26/2003, N 35/2003). This wording of the Articles of Association took effect on 19 March 2003.

Containing amendments approved by decision of the single shareholder on 8 July 2003, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 509/03, N 563/2003). This wording of the Articles of Association took effect on 8 July 2003.

Containing amendments approved by decision of the single shareholder on 24 March 2004, included in the notarial deed drawn up by Mgr. Jiří Šindelář, notary in Příbram (NZ 34/2004, N 43/2004). This wording of the Articles of Association took effect on 24 March 2004.

Containing amendments approved by decision of the single shareholder on 22 September 2004, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 613/2004, N 705/2004). This wording of the Articles of Association took effect on 22 September 2004.

Containing amendments approved by decision of the single shareholder on 30 March 2005, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 190/2005, N 244/2005). This wording of the Articles of Association took effect on 30 March 2005.

Containing an amendment approved by decision of the single shareholder on 29 June 2005, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 409/2005, N 488/2005). This wording of the Articles of Association took effect on 29 June 2005.

Containing an amendment approved by decision of the single shareholder on 22 March 2006, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 158/2006, N 183/2006). This wording of the Articles of Association took effect on 22 March 2006.

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Containing an amendment approved by decision of the single shareholder on 9 May 2007, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 292/2007, N 334/2007). This wording of the Articles of Association took effect on 9 May 2007.

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Containing an amendment approved by decision of the single shareholder on 3 October 2007, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 660/2007, N 730/2007). This wording of the Articles of Association took effect on 3 October 2007.

Containing an amendment approved by decision of the single shareholder on 7 November 2007, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 761/2007, N 840/2007). This wording of the Articles of Association took effect on 7 November 2007.

Containing an amendment approved by decision of the single shareholder on 20 February 2008, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 82/2008, N 91/2008). This wording of the Articles of Association took effect on 20 February 2008.

Containing an amendment approved by decision of the single shareholder on 23 June 2008, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 371/2008, N 403/2008). This wording of the Articles of Association took effect on 23 June 2008.

Containing an amendment approved by decision of the single shareholder on 13 May 2009, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 274/2009, N 314/2009). This wording of the Articles of Association took effect on 13 May 2009.

Containing an amendment approved by decision of the single shareholder on 23 September 2009, included in the notarial deed drawn up by JUDr. Jiří Šindelář, notary in Příbram (NZ 173/2009, N 204/2009). This wording of the Articles of Association took effect on 23 September 2009.

Containing an amendment approved by decision of the single shareholder on 3 December 2009, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 685/2009, N 770/2009). The wording of the Articles of Association took effect on 11 December 2009.

Containing an amendment approved by decision of the single shareholder on 15 September 2010, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 554/2010, N 625/2010). The wording of the Articles of Association took effect on 15 September 2010.

Containing an amendment approved by decision of the single shareholder on 15 June 2011, included in the notarial deed drawn up by JUDr. Marie Malá, notary in Prague (NZ 339/2011, N 399/2011). The wording of the Articles of Association took effect on 15 June 2011.

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# **Articles of Association of České dráhy, a.s.**

## **PART I Basic provisions**

### **Article 1 Founding of the Company**

České dráhy, a.s., (hereinafter “the company”) was founded on the day of approval of these Articles of Association and the founder’s deed of the company by the Government of the Czech Republic (hereinafter “the government”) pursuant to Section 4 paragraph 4 of Act No 77/2002 Coll. on České dráhy, akciová společnost, Správa železniční dopravní cesty, státní organizace, an amendment to Act No. 266/1994 Coll., on Railways, as last amended, and to Act No. 77/1997 Coll., on state enterprise, as last amended (hereinafter “the Act”), based on a proposal of the Ministry of Transport and Communications of the Czech Republic (hereinafter “the Ministry”). The company was founded without a public offer of shares.

### **Article 2 Business Name and Registered Office of the Company**

The business name of the company is:

České dráhy, a.s.

The registered office of the company is: Nábřeží L. Svobody 1222, Prague 1, post code: 110 15.

### **Article 3 Objectives**

The company’s objectives are:

- a) Operation of railway transport
- b) Activities performed within the framework of legal succession:
  - Operation of railway systems - branch lines
  - Operation of left-luggage facilities
  - Carrying out technical inspections and tests on designated electrical technical equipment in the following extent:
    - Electrical networks of railway systems and electricity distributors of railway systems
    - Electricity distribution installations of railway systems and electricity stations of railway systems
    - Traction substations and sectioning points
    - Contact lines

- Electricity installations powered from contact lines
  - Electricity installations of railway rolling stock
  - Heavy-current installations for rail safety, communication, fire protection, signaling and information technology
  - Electricity installations of cableways
  - Replacement sources of electricity for railway systems operation
  - Safety installations with electrical circuits carrying out the function of directly assuring safety for railway transport
  - Protection equipment against effects of atmospheric and static electricity
  - Protection equipment against negative effects of return traction currents on railway systems except special railway systems (metro) and on cableways under conditions fixed by the authorization of the Ministry of Transport of the Czech Republic dated 28 January 2003 Ref. No 5/2003-130-SPR/2
- Keeping bonded warehouses
  - Keeping health facilities not being kept by the state
  - Heat production and distribution
  - Distribution of heat energy, electricity distribution, production of heat energy
  - Research and development in the field of natural, technical and sciences – research and development in the field of railway transport
  - Production, trading and services not specified in annexes 1 to 3 of the Trades Licensing Act
  - Renting real estate, residential and non-residential space without providing other than basic services
  - Inn-keeping activity
  - Plumbing
  - Metal machining
  - Repairs of other means of transport and work machines
  - Repairs of road vehicles
  - Repairs, reconstruction, revision and testing of machines and equipment for loading and unloading, handling of materials, their clearing and cleaning
  - Cabinet making, flooring
  - Maintenance, repairs, reconstruction and modernization of railway rolling stock and their components
  - Water plumbing
  - Production, installation and repairs of electrical machines and equipment, electronic and telecommunications equipment
  - Locksmithery, tool-making
  - Property valuations for – real estate
  - Automated data processing
  - Engineering and technical activity in civil engineering
  - Control and testing of work measure gauges in the field of measuring electrical magnitudes and frequency
  - Measuring of track geometry by railway track examination coaches
  - Assembling and repairs of measuring and regulation technology
  - Washing road motor vehicles
  - Non-destructive testing of materials and products with the exception of the activities mentioned in Annex 2 of Act No 455/1991 Coll., the Trades Licensing Act, as amended
  - Technical activities in transport

- Repairs and designing of accumulator batteries
- Repairs of measure gauges (in the field of measuring electrical magnitudes and frequency)
- Verifying flaw detector equipment and probes
- Organizing specialized professional training (courses) in the field of testing materials that are used in railway operation
- Providing software
- Rating the detectability of defects on railway rolling stock components during investigations of accidents
- Rental of advertising space
- Performing analyses of waters, soils and operation materials for transport
- Performing tests for flaw detecting, elaboration of technological principles for testing by ultra-sound, magnetic and capillary methods, namely for components of railway rolling stock
- Ensuring technical and quality supervision and authorization of production and repairs of simple wooden EUR pallets
- Performing basic training and practical instruction for motor truck drivers
- Running museum activities, exhibitions of railway technology and railway history
- Running training facilities in the field of welding (welding school)
- Running training facilities in the areas of designated and reserved technical installations
- Reprographics
- Saddlery
- Braiding and assembly of ropes, flaw detecting control of ropes
- Investigation of accidents and extraordinary events for other entities
- Training, qualification and certification of non-destructive flaw detecting employees for maintenance of railway rolling stock
- Search and location of ground currents using electrical measuring equipment in the vicinity of tracks, consulting activity for the protection of buried and other metal equipment against their negative effects and electrochemical corrosion
- Assuring control of quality of materials and products used for operating railway infrastructure (including materials and products for their production)
- Testing and homologation of paints and sheets for the description, elaboration and approbation of procedures for executing surface finishing
- Testing rolling stock and equipment
- Commission activity in the field of transport
- Commission activity in the field of public tendering
- Assembling, repairs, inspection and tests of selected lifting equipment
- Design activity in civil engineering
- Construction of buildings, alterations thereto and their demolition
- Running solaria
- Psychological consulting, and diagnostics
- Assembly, repairs, inspection and tests of pressure installations and gas containers
- Inspection, examination and tests of designated technical installations in operation
- Surveying activities
- Repairs and assembly of measure gauges
- Provision of telecommunications services
- Purchase, storing, and sale of mass-produced medicaments, which can be sold according to a decision on registration without a prescription and outside pharmacies

- Road motor transport – freight domestic operated by vehicles with a highest permitted carrying capacity of up to 3.5 tons inclusive, - freight domestic operated by vehicles with a highest permitted carrying capacity of over 3.5 tons, - freight international operated by vehicles with a highest permitted carrying capacity of up to 3.5 tons inclusive, - domestic occasional passenger, - international occasional passenger
- Currency exchange
- Running a company fire rescue unit
- Assembling, repairing, inspection and testing of electrical installations
- Providing services in the field of health and safety at work
- Caring for plants, plant products, objects and soil against harmful organisms, disinfectants for plants' protection, protective disinfection, disinfection and deratization
- Official measuring
- Data processing, databank services, network administration
- Photographic services
- Processing and distribution of utility water
- Advisor activity in the field of railway transport
- Safety advisor activity for transport of dangerous goods
- Masseur, recovery and regeneration services
- Pedicure, manicure
- Running physical training and sports facilities as well as facilities for recovery and regeneration
- Technical and organizational activity in the field of fire protection
- Purchase, sale and storage of fuel and lubricants including their import except exclusive purchase, sale and storage of fuel and lubricants in consumer packaging up to 50 kg per piece - wholesale
- Running petrol stations with fuel and lubricants
- Assembly, repair, inspection and testing of gas installations and filling containers with gas
- Electricity trading
- Activities of accounting advisors, bookkeeping, maintenance of tax records

#### **Article 4**

##### Duration of the Company

The Company is founded for an unfixed term.

#### **Article 5**

##### Incorporation of the Company

The Company is incorporated on 1 January 2003. The Company is registered in the Commercial register; the registration has a declaratory character.

#### **Article 6**

##### Basic Organizational Arrangement of the Company

1. The company is divided into organizational components.
2. The organizational components of the company are the General Management, the branches, organizational units and working units.
3. The General Management is the top managing organizational part of the company and ensures the implementation of decisions taken by the company bodies and the integral management of all organizational units. The General Management is headed by the Director General.
4. The branches are organizational components that are registered in the Commercial Register (without legal capacity). The branches ensure specific cross-sectional activities related to the company's objectives for which centralization within the company is desirable.
5. Organizational units and working units are organizational components with a defined territorial competence, ensuring activities related to the company's objectives.
6. The basic organizational standard of the company is its Statute, which defines the basic and organizational relations of the company. The Statute is approved by the company's Board of Directors. The organization and internal management of the organizational components are regulated by organizational orders.

## **PART II**

### **Amount of Registered capital of the Company and Changes Thereto, Way of Paying Up Shares and Consequences of Breach of this Duty**

#### **Article 7**

##### Amount of Registered capital

1. The registered capital of the company equals CZK 20,000,000,000 (in words: twenty billion Czech crowns).
2. The registered capital is divided up as of the day of the company's founding into 20 common shares registered in the name of "Česká republika" (Czech Republic), each having a nominal value of CZK 1,000,000,000 (in words: one billion Czech crowns).
3. The company does not issue priority shares.
4. In accordance with legal regulations and the Articles of Association, the company may also issue other securities, besides shares.

#### **Article 8**

##### Form of Shares and Interim Certificates

1. The shares in the company are certificated shares with limited transferability.
2. The shares are transferable only with the government's previous consent.
3. All shares issued in the future and any interim certificates shall be issued in certificated form.

#### **Article 9**

##### Increase in Registered Capital

1. The General Meeting decides on increases in registered capital by two-thirds of votes of shareholders present.
2. The General Meeting may authorize the Board of Directors to decide, based on conditions pursuant to Act No 513/1991Coll., the Commercial Code, as amended (hereinafter

”Commercial Code”) and to these Articles of Association, on an increase in registered capital by stock subscription or from the company’s own resources with the exception of retained earnings, but at maximum by one-third of the existing amount of registered capital at the time when the General Meeting authorized the Board of Directors to increase registered capital. The authorization issued to the Board of Directors to decide on an increase in registered capital replaces a decision of the General Meeting on an increase in registered capital. The authorization must determine the nominal value, type, form and kind of the shares which are to be issued to increase registered capital.

3. The Board of Directors may also increase registered capital within its authorization repeatedly, if the total amount of a registered capital increase does not exceed the limit set.
4. The authorization for a registered capital increase may be issued for a period of five (5) years at maximum starting on the day when the General Meeting that agreed on the authorization for the Board of Directors to increase the registered capital of the company was held.

### **Article 10**

#### Ways of Increasing Registered Capital

1. The company’s registered capital can be increased in the following ways:
  - a) Increase of registered capital by subscription of new stock (Article 11 of the Articles of Association)
  - b) Increase of registered capital from the company’s own resources (Article 12 of the Articles of Association)
  - c) A conditional increase of the company’s registered capital (Article 13 of the Articles of Association)

### **Article 11**

#### Increase of Registered Capital by New Stock Subscription

1. Only monetary contributions may be used for an increase in registered capital by new stock subscription.
2. Stock subscription for an increase of registered capital by non-monetary deposits is possible only on exceptional circumstances, if it is in an important company interest. If the registered capital is increased by non-monetary deposits, the Board of Directors must present to the General Meeting a report where it indicates the reasons for stock subscription by non-monetary deposits together with a rationale for the issue price or the way of determining it. Stock may be subscribed only by non-monetary deposits which have been approved by the General Meeting.
3. An increase in registered capital by subscribing new stock is allowed if the shareholders have completely paid up the issue price of previously subscribed stock. This limitation does not apply if registered capital is increased by stock subscription and the issue price is being paid up only by non-monetary deposits.
4. The resolutions of the General Meeting on increasing registered capital by stock subscription must contain the requirements defined by the Commercial Code.
5. If stock is subscribed for an increase in registered capital by monetary contributions, the subscriber shall pay up, within the period set by the General Meeting, the part of their nominal value set by the General Meeting, but at least 30% and any capital surplus.

6. Setting off against an outstanding receivable of the company for paying up of the issue price is not allowed, unless the General Meeting decides otherwise.
7. Within thirty (30) days of a resolution of the General Meeting on an increase of registered capital, the Board of Directors of the company shall submit an application for registration of the resolution in the Commercial Register. Stock subscription may not begin sooner than on the day of registration of the General Meeting's resolution in the Commercial Register, unless the application for registration in the Commercial Register has been submitted and stock subscription is bound by a subsequent condition of validity of a decision rejecting the application for registration of the General Meeting's decision on registered capital increase in the Commercial Register.
8. Every shareholder has a right of priority to subscribe a part of new stock of the company, subscribed to increase registered capital, to the extent of his share of the company's registered capital, if the stock is subscribed by monetary contributions.
9. The Board of Directors shall make public and announce, using the method for convening the General Meeting, as defined in the Commercial Code and the Articles of Association, the information on the right of priority for present shareholders containing at least the requirements defined in the Commercial Code.
10. The Board of Directors shall submit an application for registration of the amount of registered capital in the Commercial Register after a stock subscription corresponding to the amount of its increase and after at least 30% of the stock's nominal value is paid up, including any surplus, if the subscription is through monetary contributions, and after paying off all non-monetary contributions.

## **Article 12**

### Increase of Registered Capital from the Company's own Resources

1. After the approval of annual, extraordinary or interim financial statements, the Board of Directors may decide to use net profit, after allotment to the reserve fund or part thereof, the social fund according to the law or another own resource reported in the financial statements in the company's equity, to increase registered capital. Net profit cannot be used to increase registered capital based on interim financial statements.
2. An increase in registered capital from the company's own resources is not allowed if all conditions defined in the Commercial Code and a resolution of the General Meeting are not fulfilled.
3. A resolution of the General Meeting on increasing registered capital from the company's own resources must contain all the requirements defined in the Commercial Code.
4. Shareholders participate in increasing registered capital in proportion to the nominal values of their shares.
5. An increase in registered capital shall be performed either by issuing new shares and by their free distribution among shareholders in proportion to the nominal values of their shares or by increasing the nominal values of the existing shares.
6. The way of issuing new shares, their acceptance by the shareholders and the way of increasing the nominal values of the existing shares are defined in the Commercial Code.
7. The Board of Directors shall submit the application for registration of the amount of registered capital in the Commercial Register after its increase from the company's own resources.

### **Article 13**

#### **Conditional Increase of Registered Capital of the Company**

1. The company shall not issue priority bonds.
2. The General Meeting decides on the issue of exchangeable bonds by two-thirds of the votes of shareholders present. At the same time it adopts a resolution on increasing registered capital in the extent in which the rights from exchangeable bonds may be exercised.
3. The amount of a conditional increase in registered capital may not exceed a half of the registered capital which is registered on the day of the General Meeting's resolution on issuing exchangeable bonds in the Commercial Register.
4. The General Meeting's resolution must contain all requirements defined in the Commercial Code.
5. The Board of Directors of the company shall submit an application for the registration of the General Meeting's Resolution on a conditional increase in registered capital to the Commercial Register within thirty (30) days of the day the General Meeting adopts the resolution.
6. The Board of Directors of the company shall submit an application for the registration of the amount of registered capital in the Commercial Register without unnecessary delay after the expiration of the term for exercising interchangeable bonds and only within the extent of exercised interchangeable rights.
7. Within the exchangeable rights exercised, shares may be issued only after the registration of the registered capital increase in the Commercial Register.
8. In case of an increase in the nominal value of existing shares before the exchange of bonds, the transferee shall pay the difference between the original and the increased nominal value of the shares. In that case, the provisions of the Commercial Code and these Articles of Association on subscribing new stock shall be applied.
9. In case of a decrease in the nominal value of existing shares before the exchange of bonds, the company shall return to the transferee the difference between the original and the increased nominal value of the shares. In that case the provisions of the Commercial Code and these Articles of Association on decreasing registered capital by decreasing the nominal value of the shares shall be applied.
10. The procedure for exercising exchangeable rights is governed by the Commercial Code.

### **Article 14**

#### **Way of Paying Up Shares and Implications of Delays in Paying Off Shares**

1. Based on a decision of the General Meeting, the issue price of shares may be paid up both by monetary and by non-monetary contributions. If the non-monetary contribution is:
  - a) A movable, the subscriber shall hand over the object of the contribution to the company and to ensure the acquisition of the right of ownership of the company to the object of contribution before submitting the application for registration of the registered capital increase to the Commercial Register;
  - b) Real estate, the subscriber shall hand over the object of the contribution to the company before submitting the application for registering the increase in registered capital and a declaration in writing with an officially verified signature, to ensure the acquirement of the right of ownership by the company to the object of contribution while any relevant application for registration in the land registry shall be submitted



within fifteen (15) days of the registration of the registered capital increase in the Commercial Register.

2. As far as other non-monetary deposits are concerned, a contribution is paid up by concluding an agreement in writing. If the non-monetary contribution is know-how, handing over documentation with the know-how is required for the paying up. If the non-monetary deposit is an enterprise or part thereof, handing over the enterprise or its part is required for the paying up. The company and the contributor shall draw up a record on handing over the documentation with the know-how or on handing over the enterprise or its part.
3. If the right of ownership to the object of the non-monetary contribution is not transferred to the company, although the non-monetary contribution is considered paid up, the person who has committed to provide this contribution shall pay the value of the non-monetary contribution in money and the company shall return to this person the non-monetary contribution that it has accepted, unless it was obliged to return it to the entitled person. If the shareholder transfers the shares or interim certificates to another, the transferee of the shares or interim certificates guarantees the performance of the obligation to pay the value of the non-monetary contribution in money, unless they were acquired on a public market.
4. While paying up the issue price of the stock, a shareholder shall respect the terms fixed for the respective issue of shares and shall pay up the issue price of the shares subscribed by monetary contributions within one year of the date of registration of the relevant amount of registered capital in the Commercial Register, at the latest.
5. While paying up a contribution or its part before the registration of the relevant amount of registered capital in the Commercial Register, the company shall issue a confirmation in writing.
6. A shareholder who did not fulfill the obligations mentioned in paragraph 4 shall pay the company late charges equaling 25% of the sum due per year. Pursuant to Section 186c paragraph 2 letter a) of the Commercial Code, he is not entitled to exercise his right to vote until the whole amount due is paid.
7. If a subscriber does not pay up the issue price of the shares or its payable part, the Board of Directors shall invite him to pay it up within a term of forty (40) days after the delivery of the invitation. After the vain expiration of the term, the Board of Directors may exclude the subscriber from the company and invite him to return the interim certificate and then proceed pursuant to Section 177 of the Commercial Code, unless the General Meeting decides to decrease the registered capital of the company. According to the circumstances, the Board of Directors is obliged, pursuant to legal regulations and the interests of the company, to enforce the non-paid up part of the shares' issue price.

## **Article 15**

### Reduction of Registered Capital

- 1 Any reduction in registered capital is decided by the General Meeting by two-thirds of the votes of shareholders present.
2. A resolution of the General Meeting on registered capital reduction shall contain at least the requirements defined in the Commercial Code.
3. Registered capital reduction must not worsen the recoverability of the creditors' receivables.
4. The Board of Directors shall submit, within thirty (30) days of the day of a resolution of the General Meeting, an application for registration of the resolution of the General Meeting in the Commercial Register.

5. If the company is obliged to reduce registered capital, it shall use for registered capital reduction its own shares or interim certificates, if they are part of its property. In other cases of registered capital reduction, the company shall use for registered capital reduction especially its own shares or interim certificates. The registered capital can be reduced by other procedures only if this procedure is not sufficient for reducing registered capital in the extent fixed by the General Meeting, or if this way of reducing registered capital does not meet the purpose of registered capital reduction.
6. The Board of Directors shall announce and publish the extent of registered capital reduction by the deadlines and in the way defined in the Commercial Code.
7. After the registration of registered capital reduction in the Commercial Register, the company shall destroy the returned certificated shares or interim certificates.

### **Article 16**

#### **Way of Reducing Registered Capital**

If the company does not have in its ownership shares or interim certificates of its own or the using of own shares or interim certificates is not sufficient to reduce registered capital, the General Meeting can decide on a registered capital reduction by decreasing the nominal value of shares and interim certificates.

### **Article 17**

#### **Decreasing the Shares and Interim Certificates' Nominal Value**

1. If the nominal value of the company's shares is decreased, it decreases proportionally for all shares in the company.
2. The rules for decreasing the nominal value of shares or interim certificates are defined in the Commercial Code.

## **PART III Shareholders**

### **Article 18**

#### **Participation of a Shareholder in the General Meeting**

1. Every shareholder is entitled to participate in the General Meeting, to vote at it, to require and obtain explanations of matters concerning the company, if such explanation is necessary for consideration of the object of the General Meeting, and to submit proposals and counter-proposals. In the case of votes at the General Meeting, a submitted counter-proposal is subjected to a vote first.
2. The right to vote is linked to shares and is governed by their nominal value with one vote for each CZK 1,000,000,000 (in words: one billion Czech crowns) of nominal value of a share.
3. A shareholder exercises his rights at the General Meeting either through the statutory body or an authorized representative under a power of attorney with a certified signature of the mandatory. A shareholder may not be represented by a member of the board of directors, supervisory board or audit committee. If a shareholder is the Czech Republic, then

pursuant to the law the Czech Republic exercises the rights of a shareholder in the company through the Steering Committee

## **PART IV**

### **Bodies of the Company, their Position and Powers, the Director General**

#### **Article 19**

##### Bodies of the Company

The bodies of the Company are:

- a) The General Meeting;
- b) The Board of Directors;
- c) The Supervisory Board;
- d) The Audit Committee.

#### **Section A**

##### General Meeting

#### **Article 20**

##### Supreme Body of the Company

1. The General Meeting is the supreme body of the company.
2. If the company has a single shareholder, the powers of the General Meeting are exercised by this single shareholder.
3. While exercising the powers of the General Meeting, the single shareholder acts in accordance with legal regulations and the Articles of Association.
4. Unless the Articles of Association provide otherwise, the provisions on the General Meeting also apply to the single shareholder.
5. If the single shareholder is the government, it exercises the powers of the General Meeting through the Steering Committee.

#### **Article 21**

##### Convening of the General Meeting

1. The General Meeting is held at least twice a year, and the first General Meeting shall be held by 30 June of the current calendar year, at the latest. The place of the meeting shall be mentioned in the invitation to the General Meeting and it shall usually be the registered office of the company.
2. The General Meeting is convened by the Board of Directors.
3. An extraordinary General Meeting is convened by the Board of Directors. The Supervisory Board convenes the General Meeting only if the interests of the company require it or in cases when this obligation resulting from the Commercial Code and the Articles of Association has not been fulfilled by the Board of Directors. It then proposes the necessary measures during the General Meeting. In the cases defined in the Commercial Code, one or more shareholders of the company may be also empowered by a court to convene an extraordinary General Meeting.
4. The Board of Directors shall convene an extraordinary General Meeting:

- a) Without unnecessary delay if it finds that, based on any financial statements, the total loss of the company has reached such an amount that if it were settled from available resources of the company the unsettled loss would be equal to half of registered capital, or with regard to all circumstances this may be justifiably assumed, or if it finds that the company is insolvent; it shall propose to the General Meeting the winding up of the company or the adoption of another measure, unless the Commercial Code provides otherwise;
  - b) On the request of shareholders with shares the cumulative nominal value of which exceeds 3% of registered capital. The Board of Directors shall convene an extraordinary General Meeting so that it takes place forty (40) days after the day it received the request for its convening, at the latest;
  - c) If it is necessary due to other important interests of the company.
5. The General Meeting is convened by the Board of Directors or Supervisory Board sending an invitation to all shareholders at the addresses shown in the list of shareholders by registered letter, personal delivery against confirmation, delivery service or express courier, or by combining these methods of communication, at least thirty (30) days before the General Meeting takes place. In the case of an extraordinary General Meeting, this term is thirty (30) days, unless the Commercial Code provides otherwise.
  6. The invitation to the General Meeting shall contain, at least, the requirements defined in the Commercial Code, with regard to the agenda.
  7. The place, date and hour of the General Meeting must be defined in such a way as to constrain to the lowest possible degree the shareholders' ability to participate at the General Meeting.
  8. A General Meeting can be cancelled or its date can be postponed to a later term. The cancellation of the General Meeting or a change of its date shall be announced in the way defined in these Articles of Association for the convening of the General Meeting, one (1) week before its announced date at the latest, otherwise the company shall cover all reasonably incurred expenses of shareholders who arrive in accordance with the original invitation or original announcement.
  9. If an amendment to the company's Articles of Association is to be on the agenda of the General Meeting, the invitation to the General Meeting shall characterize at least the essence of the amendments proposed and the draft of the amendments to the Articles of Association shall be available to the shareholders for inspection in the registered office of the company in the term defined for the convening of the General Meeting. A shareholder is entitled to request a copy of the draft Articles of Association at his own expense and risk. The shareholders must be reminded on these rights in the invitation to the General Meeting.
  10. The first item in the agenda of the General Meeting is the election of its Chairman, a minutes clerk, two verifiers and persons authorized to count votes.

## **Article 22**

### Quorum of the General Meeting and Form of its Deciding

1. The quorum of the General Meeting is attained if the shareholders present have shares the nominal value of which exceeds 50% of the company's registered capital.
2. The General Meeting takes decisions by a majority of votes of shareholders present, unless the Commercial Code or these Articles of Association requires a higher majority.
3. Votes are taken at the General Meeting by means of ballots containing the name of the shareholder and the number of his votes.

4. If the General Meeting is not able to attain a sufficient quorum even after two (2) hours have elapsed since the time for which it had been convened, the person charged with starting the General Meeting shall inform the shareholders present of this fact. The Board of Directors shall convene a substitute General Meeting by a new invitation so that it takes place within six (6) weeks of the day for which the original General Meeting had been convened. The individual shareholders shall be informed in writing of the substitute General Meeting within fifteen (15) days of the day when the original General Meeting should have been held.
5. The substitute General Meeting shall have an unchanged agenda and attains a sufficient quorum notwithstanding the provisions of paragraph 1 of this article.

### **Article 23**

#### Remit of the General Meeting

1. The General Meeting's remit includes the following:
  - a) Taking decisions on amendments to the Articles of Association unless they result from an increase in registered capital by the Board of Directors pursuant to Article 210 of the Commercial Code or from a change that has taken place based on other legal facts;
  - b) Taking decisions on increasing or decreasing registered capital or on charging the Board of Directors with adopting decisions on increasing registered capital or on the possibility of setting off a monetary receivable from the company against a stock subscription receivable;
  - c) Decisions on issuing bonds in the cases defined in the Commercial Code;
  - d) Electing and dismissing members of the Supervisory Board, with the exception of those members who are elected by employees of the company;
  - e) Electing and dismissing members of the Audit Committee;
  - f) Approving the ordinary or extraordinary financial statements, the consolidated financial statements and, in the cases defined in legal regulations, also the interim financial statements, decisions on distributing profit or settling losses and fixing directors' bonuses;
  - g) Approving the annual financial statements of independent accounting areas;
  - h) Taking decisions on remuneration of members of the Supervisory Board, the Audit Committee, the Board of Directors and the Supervisory Board Committees;
  - i) Taking decisions on the designation of an auditor for the performance of a mandatory audit or the verification of other documents, if such designation is required by legislation, and his dismissal;
  - j) Deciding on the registration of the company's participation securities in accordance with other legislation and on canceling this registration;
  - k) Deciding on the winding up of the company with liquidation, appointing and dismissing a liquidator, including setting the amount of his remuneration, approving a proposal for distributing the liquidation balance;
  - l) Deciding on the creation of the company's funds and setting rules for their creation and drawings on them;
  - m) Deciding on mergers, transfers of assets to one shareholder or division or change of legal form, i.e. winding up of the company without liquidation;
  - n) Approving contracts based on which an enterprise of the company or part thereof is transferred, contracts on rental of enterprise or part thereof and contracts establishing a lien on an enterprise or part thereof;

- o) Taking decisions on the provision of financial assistance by the company (advances, loans, credits or other monetary performance, or the provision of collateral) for the purposes of obtaining shares or interim certificates in a company;
  - p) Approving actions executed on behalf of the company before its creation pursuant to Article 64 of the Commercial Code;
  - q) Approving control contracts, contracts of transfer of profit and contracts on silent partnership, as well as amendments thereto;
  - r) Approving contracts on performance of office between the company and a member of the Supervisory Board and between the company and a member of the Audit Committee;
  - s) Approving performance of the company in favor of a member of the Supervisory Board and a member of the Audit Committee in accordance with to the Commercial Code;
  - t) Approving reports on business activities of the company and on the balance of its assets, including reports on accounting for resources from public budgets, after a previous opinion of the Supervisory Board;
  - u) Deciding on increasing the reserve fund over the limit fixed by the Articles of Association;
  - v) Excluding or limiting the right of priority on subscribing new stock pursuant to Article 204a of the Commercial Code;
  - w) Taking decisions on filling the reserve fund from the capital surplus;
  - x) Deciding on basic matters concerning the organizational arrangement of the company;
  - y) Deciding on the establishment of its advisory bodies, their composition and powers. It is entitled to issue an order telling the Board of Directors it is under (i) a duty in matters determined by the General Meeting to provide information and submit documents to such advisory bodies, (ii) a duty in matters determined by the General Meeting to ask for an advisory body's prior opinion before adopting a decision or measure, and (iii) a duty to submit this opinion to the General Meeting;
  - z) Deciding on the granting of prior consent to acts concerning or leading to the sale, transfer or other disposal of an ownership interest in another company, in particular to (i) starting negotiations with a third party on the sale or transfer of an ownership interest in another company, (ii) concluding an agreement on an intention, agreement on protection of confidential information or other agreements enabling the performance of legal or economic due diligence or an audit of a target company preceding the sale or transfer of ownership interests in such company, and (iii) concluding a contract with a tax, accounting, legal, financial or other advisor on the sale or transfer of an ownership interest in another company;
  - aa) Deciding on other matters entrusted to the General Meeting by the Commercial Code or these Articles of Association;
2. The General Meeting takes decisions by resolutions, which are binding on bodies of the company and the shareholders, unless the Commercial Code provides otherwise.
  3. The General Meeting cannot reserve decisions on matters that it has not been entrusted with by the Commercial Code or these Articles of Association.

**Section B**  
Board of Directors

**Article 24**  
Statutory Body

1. The Board of Directors is the statutory body and administers the activity of the company and acts on its behalf.
2. The Board of Directors is governed by the principles and instructions approved by the General Meeting, provided they are in accordance with legal regulations and with these Articles of Association. A breach of them shall not influence in any way the effect of the members of the Board of Directors' acts towards third parties. Nobody is entitled to issue instructions to the Board of Directors that concern business management of the company, unless the law provides otherwise. The Board of Directors shall ensure that the Supervisory Board and the Audit Committee can exercise their powers in accordance with legislation and these articles of association.

### **Article 25**

#### Number of Members of the Board of Directors and their Term of Office

The Board of Directors of the company has six (6) members. The members of the Board of Directors are elected and dismissed by the Supervisory Board. The term of office of the individual members of the Board of Directors is five years. After the term of office of a member of the Board of Directors expires, the Supervisory Board shall elect, within three (3) months, a new member of the Board of Directors. A member of the Board of Directors may be re-elected.

### **Article 26**

#### Chairman of the Board of Directors

1. The chairman of the first Board of Directors is elected and dismissed by the Board of Directors by a majority of all its members.
2. With the exception of the first chairman of the first Board of Directors, the chairman of the Board of Directors is elected and dismissed by the Supervisory Board by a majority of all its members.
3. The Chairman of the Board of Directors manages the activities of the Board of Directors of the company.
4. The Chairman of the Board of Directors can resign at any time from his office by notification of his resignation in writing sent to the Supervisory Board. The performance of the office of chairman of the Board of Directors ends on the day when the resignation is discussed or should have been discussed by the Supervisory Board

### **Article 27**

#### Election of the Board of Directors

1. The first members of the Board of Directors are appointed by the government on the motion of the Ministry on the day the company is founded.
2. Other members of the Board of Directors are elected and dismissed by the Supervisory Board by a majority of all its members. A member of the Board of Directors can be re-elected.

3. When dismissing members of the Board of Directors, the Supervisory Board must always maintain a quorum of the Board of Directors of the company.

### **Article 28**

#### Cessation of Membership of the Board of Directors

1. Membership of the Board of Directors terminates upon the death of a member of the Board of Directors, his/her dismissal by the Supervisory Board, his/her resignation from his/her position, the expiration of his/her term of office or due to other legal reasons.
2. In the event the term of office of a member of the Board of Directors ends, the Supervisory Board shall elect a new member of the Board of Directors within three months.
3. A member of the Board of Directors can resign at any time from his/her position pursuant to the rights and obligations set in the agreement concluded between the member of the Board of Directors and the company, by a notification in writing sent to the Supervisory Board, in which case the performance of office ends on the day when the resignation is discussed or should have been discussed by the Supervisory Board, or to the Board of Directors, in which case the performance of office ends on the day when the resignation is discussed or should have been discussed by the Board of Directors; the Board of Directors shall notify the Supervisory Board of this fact without delay. If a member of the Board of Directors announces his/her resignation during a meeting of the Supervisory Board or Board of Directors, the performance of his/her office ends two months after such an announcement, unless the relevant body to which the resignation was announced approves, on his/her request, another moment of cessation of the office.
4. The office of a member of the Board of Directors ceases upon the election of a new member of the Board of Directors, but no later than three months after the expiration of his term of office.

### **Article 29**

#### Convening of the Board of Directors

1. The Board of Directors meets according to the needs of the company, but at least once every three (3) months.
2. A meeting of the Board of Directors is convened by the Chairman of the Board of Directors, usually in the registered office of the company. An invitation to a meeting of the Board of Directors may be delivered by personal delivery against confirmation, by registered letter, by delivery service or express courier or by fax and shall be sent at least five (5) days before the day of the meeting. This term may be shortened with the consent of all members of the Board of Directors.
3. An invitation shall contain the following requirements:
  - a) Business name and registered office of the company;
  - b) Place, date and hour of the meeting;
  - c) Agenda of the meeting.
4. A meeting of the Board of Directors is held at any time this is requested in writing by any member of the Board of Directors or of the Supervisory Board, no later than 10 days after such request is made.



5. Under the conditions defined in the Commercial Code, the Board of Directors may invite members of the Supervisory Board, members of the Audit Committee or other parties to its meetings.

### **Article 30**

#### Meetings of the Board of Directors

1. Meetings are chaired by the Chairman of the Board of Directors, in the event of his absence by a member of the Board of Directors designated by him (the chair). In the event that the Chairman of the Board of Directors does not designate such a person, the presiding member is a member of the Board of Directors elected by the Board of Directors.
2. Minutes of Board of Directors' meetings and their decisions shall be drafted and shall be signed by the Chairman of the Board of Directors and the minutes clerk; if the chairman of the Board of Directors did not chair the relevant meeting of the Board of Directors, the minutes are also signed by the chair. The minutes of a Board of Directors' meeting shall contain a list of the members of the Board of Directors who voted against the individual resolutions or abstained from voting. Unless established otherwise, the non-mentioned members of the Board of Directors shall be considered to have voted for the adoption of a resolution.
3. The costs related to meetings and other activities of the Board of Directors are borne by the company.

### **Article 31**

#### Form of Deciding of the Board of Directors and Its Quorum

1. The quorum of the Board of Directors is attained if an absolute majority of all its members is present at a meeting. The office of a member of the Board of Directors shall be performed in person. The Board of Directors decides by voting, by an absolute majority of all its members. Each member has one vote. In the event of a tie, the vote of the presiding member shall be decisive.
2. In addition to a show of hands, the Board of Directors may vote using technical means at a meeting.

### **Article 32**

#### Decisions of the Board of Directors outside Meetings

1. If all members of the Board of Directors consent, the Board of Directors may take decisions outside meetings as well. In this case, however, all members of the Board of Directors shall express their views on a draft decision and the decision must be taken unanimously "per rollam." Decisions taken outside meetings shall be mentioned in the minutes of the closest meeting of the Board of Directors.
2. All organizational activity related to taking decisions outside meetings of the Board of Directors shall be arranged by the Chairman of the Board of Directors.

### **Article 33**

## Obligations of the Members of the Board of Directors

1. Only an individual who has fulfilled all the conditions defined in the Commercial Code may be a member of the Board of Directors.
2. The members of the Board of Directors shall exercise their powers as a careful manager and maintain confidentiality about confidential information and facts the disclosure of which to third parties might be detrimental to the company. In case of doubts whether a member of the Board of Directors acted as a careful manager, this member of the Board of Directors bears the burden of proof to show he acted as a careful manager. Those members of the Board of Directors whose infringement of legal duties while exercising the powers of the Board of Directors was detrimental to the company shall be liable for the damage caused jointly and severally.
3. The prohibition on competition applies to a member of Board of Directors in accordance with the Commercial Code.
4. In the event that a member of the Board of Directors breaches the prohibition on competition, the company is entitled to require:
  - a) That the person who breached this prohibition on competition surrenders the benefit from the transaction during which he breached this prohibition;
  - b) That the person who breached this prohibition on competition transfers the rights corresponding to such a benefit to the company;
  - c) Compensation for the damage caused.
5. The rights of the company mentioned in paragraph 4 of this Article expire if they are not exercised within three (3) months of the day when the company learns of the breach of the prohibition on competition or within one (1) year of the time the prohibition is breached, without prejudice to the right to compensation for damage.

### **Article 34**

#### Information Duty

In the event that a member of the Board of Directors of the company is a statutory body, a member of a statutory or other body of a legal entity that is an entrepreneur and against whose assets a bankruptcy order has been granted, or if an insolvency application against such a legal entity has been refused for a lack of property (hereinafter “legal fact”), this member of the Board of Directors shall inform the Supervisory Board of this legal fact without delay.

### **Article 35**

#### Liability of Members of the Board of Directors for Damage Caused to the Company

1. The liability of the members of the Board of Directors for damage caused to the company is defined in legal regulations.
2. Any provision of a contract between the company and a member of the Board of Directors or of these Articles of Association that excludes or limits the member of the Board of Directors' liability for the damage is invalid.

### **Article 36**

#### Definition of Powers of the Board of Directors

1. The Board of Directors:

- a) Decides on all matters of the company, if they are not reserved by the Commercial Code, by the Act or by these Articles of Association for the General Meeting, Supervisory Board or Audit Committee;
- b) Approves, after discussions with the trade union organizations operating in the company, the voting rules which define the way and conditions of electing and dismissing one-third of members of the Supervisory Board elected and dismissed by the employees of the company;
- c) Decides on the disposal of the company property; if the approval or issue of a prior consent for the disposal of company property or another act is reserved for the General Meeting or Supervisory Board by the law or these Articles of Association, the Board of Directors decides on the disposal of company property or other act only after the relevant approval or issue of prior consent by the General Meeting or Supervisory Board.

2. The Board of Directors is responsible for the following:

- a) If the company performs activities other than the operation of rail passenger transport, such activities shall be separated in the internal accounts;
- b) The company shall not transfer funds from the operation of rail passenger transport paid for from public funds to other activities;
- c) As a part of its separate internal accounts, the company shall keep independent accounts for activities paid for from public funds in accordance with other legislation;
- d) The company shall meet its duty to audit the annual financial statements for the independent accounting groups in accordance with the above subsections and the audit shall be conducted by an auditor designated by the ministry;
- e) The company shall provide the Supreme Control Office with the necessary co-operation during the performance of its supervision activities regarding the financial management of the government organization Správa železniční dopravní cesty;
- f) The company shall regularly create a social fund by a profit allocation equaling 2% of the annual amount of costs cleared for wages and wage compensation;
- g) In a state of danger, state of threat to the state, state of emergency or state of war, the company shall ensure the operation of railway transport according to the needs of the defence of the state and the needs of the system of economic measures adopted for states of crisis;

3. Regarding the exercise of the powers of the Board of Directors defined in paragraphs 1 and 2 of this Article, the Board of Directors has, in addition to other tasks defined by the Act, the Commercial Code and these Articles of Association, the following powers, in particular:

- a) To convene the General Meeting of the company and execute its decisions;
- b) To ensure the business management of the company including due book-keeping;
- c) To ensure the concordance of the company's activities with legal regulations of the Czech Republic;
- d) To submit to the General Meeting for approval the ordinary financial statements with a proposal for the distribution of profit or settlement of losses of the company. Also to submit extraordinary or any interim financial statements;
- e) To submit to the General Meeting for approval annual financial statements of the separate accounting areas;

- f) To submit to the General Meeting and to the Supervisory Board a report on business activity of the company and on the state of its property, including a report accounting for resources from public budgets;
  - g) To submit to the Supervisory Board for approval the annual business plan including business strategy and budgets for the operation of railway infrastructure and railway transport of the company;
  - h) To submit to the General Meeting for approval proposals for changes and amendments to these Articles of Association, proposals for increasing or decreasing registered capital, proposals for changes and amendments to the extent of the company's business activities, reports on questions that the Board of Directors deals with and that are important for the functioning of the company, or that are requested by the General Meeting;
  - i) In the event that the company has two or more shareholders, to prepare within thirty (30) days of the end of the General Meeting the minutes from the General Meeting;
  - j) To propose to the General Meeting the establishment of company funds, except the reserve fund and the social fund;
  - k) To decide on the occupation of the position (office) of Director General of the company and dismissals from this position;
  - l) To appoint and dismiss registered agents of the company and to supervise their activity;
  - m) To convene the General Meeting without unnecessary delay if it finds that, based on any financial statements, the total loss of the company has reached such an amount that if it were settled from available resources of the company the unsettled loss would be equal to half of registered capital or if it finds that the company is insolvent; it shall propose to the General Meeting the liquidation of the company or the adoption of another measure;
  - n) It shall provide relevant documents that may be required by any member of the Supervisory Board while executing his authority and during his activity pursuant to Article 47 paragraph 2, by a deadline fixed for the Board of Directors by the Supervisory Board in a resolution;
  - o) To propose an auditor to the General Meeting for its designation, the auditor will be recommended by the Audit Committee;
  - p) To conclude with the designated auditor a contract on mandatory audit, or on the provision of other services, for the period approved by the general meeting. The General Meeting's consent is needed to withdraw from or terminate the contract;
  - q) To discuss the audit report with the auditor.
4. The rights and obligations of the Director General and a registered agent of the company, including limitations on acting on behalf of the company, shall be defined in a decision of the Board of Directors of the company, or possibly in a contract concluded between the Director General, the registered agent and the company.
5. The financial statements or selected data from them specifying the time and places where the annual financial statements are available for inspection by the shareholders shall be sent to shareholders with shares to name at least thirty (30) days before the day of the General Meeting.
6. The Board of Directors shall submit, without unnecessary delay, to the insolvency court an application for the start of insolvency proceedings (insolvency application), if the conditions defined in another act are met.
7. The Board of Directors shall, without undue delay, inform the General Meeting that, in companies in which the company has an ownership interest or share in voting rights, a

general meeting has been convened or a certain matter submitted to the single shareholder regarding a proposal by a body of the relevant company that is not its board of directors.

## **Section C** Supervisory Board

### **Article 37** Election of the Supervisory Board

1. The first members of the Supervisory Board of the company were appointed by government for the period of one (1) year from the day of creation of the company, as follows:
  - a) Two-thirds of the first members were appointed by the government based on a proposal of the Ministry after deliberation with the relevant trade union bodies;
  - b) One-third of the first members were appointed by the government from among the employees of České dráhy based on the results of elections whose organization is defined in the election rules approved by České dráhy after deliberation with trade union bodies.
2. Further members of the Supervisory Board are elected as follows:
  - a) Two-thirds of the members of the Supervisory Board are elected by the General Meeting
  - b) One-third of the members of the Supervisory Board are elected by the employees of the company according to the election rules approved by the company's Board of Directors after deliberation with trade union bodies.
3. Members of the Supervisory Board may be re-elected.

### **Article 38** Cessation of Membership in the Supervisory Board

1. Membership of the Supervisory Board ceases upon the death of a member of the Supervisory Board, his dismissal, his retirement from his office, the expiration of his term of office or due to other legal reasons.
2. In the event the membership of the Supervisory Board of a member elected by the General Meeting terminates, the General Meeting shall elect a new member of the Supervisory Board within three months. In the event the membership of the Supervisory Board of a member elected by the employees of the company terminates, the employees of the company shall, in accordance with the election procedure, elect a new member of the Supervisory Board within three months.
3. The General Meeting or the employees of the company may dismiss the members of the Supervisory Board that it has elected.
4. A member of the Supervisory Board elected by the General Meeting can resign at any time from his office pursuant to the rights and obligations set in the agreement concluded between the member of the Supervisory Board and the company, by a notification in writing sent:
  - a) To the General Meeting, in which case the performance of office ends on the day when the resignation is discussed or should have been discussed by the General Meeting; or
  - b) To the Supervisory Board, in which case the performance of office ends on the day when the resignation is discussed or should have been discussed by the Supervisory Board.

If a member of the Supervisory Board elected by the General Meeting announces his/her resignation during a General Meeting or a meeting of the Supervisory Board, the performance of his/her function ends within two months of such an announcement unless the body to which the resignation was announced approves, at his/her request, another moment of termination of office.

5. A member of the Supervisory Board elected by the employees of the company can resign at any time from his/her office pursuant to the rights and obligations set in the agreement concluded between the member of the Supervisory Board and the company, by a notification in writing sent to the Supervisory Board, in which case the performance of office ends on the day when the resignation is discussed or should have been discussed by the Supervisory Board. If a member of the Supervisory Board elected by the employees of the company announces his/her resignation during a meeting of the Supervisory Board, the performance of his/her office ends within two months of such an announcement unless the Supervisory Board approves, at his request, another moment of termination of office
6. Membership of the Supervisory Board ceases upon the election of a new member of the Supervisory Board, but no later than three months after the expiration of his/her term of office.
7. In the event of termination of membership of the Supervisory Board for a member elected by the General Meeting, the Supervisory Board is entitled to appoint a substitute member of the Supervisory Board up to the next General Meeting, provided the number of members of the Supervisory Board does not fall to lower than half.

### **Article 39**

#### Number of Members of the Supervisory Board and their Term of Office

1. The Supervisory Board has nine (9) members. The term of office of individual members of the Supervisory Board is 5 years.
2. During a meeting, the Supervisory Board elects and dismisses its Chairman by a majority of votes of all its members. The Chairman of the Supervisory Board manages the activity of the Supervisory Board.

### **Article 40**

#### Convening of the Supervisory Board

1. A meeting of the Supervisory Board is convened by the Chairman of the Supervisory Board or by a member of the Supervisory Board charged by him as needed, but at least four times (4x) a year, usually at the registered office of the company. An invitation to a meeting of the Supervisory Board may be delivered by personal delivery against confirmation, by registered letter, by delivery service or express courier or by fax and shall be sent at least ten (10) days before the day of meeting. This term may be diminished with the consent of all members of the Supervisory Board.
2. An invitation shall contain the following requirements:
  - d) Business name and registered office of the company;
  - e) Place, date and hour of the meeting;
  - f) Agenda of the meeting.
3. A meeting of the Supervisory Board shall be held at any time this is requested in writing by any member of the Supervisory Board, by the Board of Directors, or by a shareholder, if it

gives an urgent reason for it being convened, at least in 15 days after the presentation of this request.

4. The Supervisory Board may invite to its meetings members of the Board of Directors, members of the Audit Committee and other parties under the conditions defined in the Commercial Code.

#### **Article 41**

##### Meetings of the Supervisory Board

1. A meeting is chaired by the Chairman of the Supervisory Board or, in the event of his absence, by a member of the Supervisory Board designated by him (the chair). If the Chairman of the Supervisory Board does not designate such a person, the chairing member is the member of the Supervisory Board chosen by the Supervisory Board.
2. Minutes of a meeting of the Supervisory Board and its decisions, signed by the Chairman of the Supervisory Board, shall be taken; if a meeting was not chaired by the chairman of the Supervisory Board, the chair shall also sign them. Any member of the Supervisory Board may require that his dissenting standpoint is noted in the minutes.
3. If the members of the Supervisory Board elected by the employees of the company have another opinion than that of the other members of the Supervisory Board, their minority opinion must be made known to the General Meeting together with the conclusions of the other members of the Supervisory Board.
4. The costs related to the meetings of the Supervisory Board are borne by the company.
5. The first meeting of the Supervisory Board shall take place within thirty (30) days of the day of creation of the company, at the latest, to approve the contract on the discharge of office with the members of the Board of Directors.

#### **Article 42**

##### Form of Deciding of the Supervisory Board and Its Quorum

1. The quorum of the Supervisory Board is attained if an absolute majority of all its members are present at a meeting. A member of the Supervisory Board shall perform his office in person.
2. The Supervisory Board decides by voting by an absolute majority of all its members. Each member has one vote.
3. At a meeting, the Supervisory Board may vote by a show of hands or with the help of technical means.

#### **Article 43**

##### Decisions outside Meetings

1. If all members of the Supervisory Board consent, the Supervisory Board may take decisions outside meetings as well. In this case, however, all members of the Supervisory Board shall express their views on the draft decision and the decision shall be taken unanimously "per rollam".
2. Decisions taken outside meetings shall be mentioned in the minutes of the closest meeting of the Supervisory Board.

3. All organizational activity related to taking decisions outside meetings of the Supervisory Board is arranged by its Chairman.

#### **Article 44**

##### Obligations of the Members of the Supervisory Board

1. The members of the Supervisory Board shall exercise their powers as a careful manager and maintain confidentiality about confidential information and facts the disclosure of which to third parties might be detrimental to the company.
2. The members of the Supervisory Board shall abide by principles and instructions approved by the General Meeting if they are in accordance with valid legal regulations and with these Articles of Association
3. During a General Meeting, the members of the Supervisory Board shall inform it of the results of their supervisory activity.
4. Only an individual who has fulfilled all the conditions defined in the Commercial Code may be a member of the Supervisory Board.
5. A member of the Supervisory Board may not also be a member of the Board of Directors, the Director General of the company, a registered agent of the company or another person entitled to act on behalf of the company.
6. The prohibition on competition applies to members of Supervisory Board, in accordance with the Commercial Code.

#### **Article 45**

##### Information Duty

If a member of the Supervisory Board is a statutory body, a member of a statutory or other body of a legal entity that is an entrepreneur and on whose assets a bankruptcy order has been granted, or if an insolvency application against such a legal entity has been refused for a lack of property, this member of the Supervisory Board shall notify this legal fact without delay to the General Meeting.

#### **Article 46**

##### Liability of the Members of the Supervisory Board for Damage Caused to the Company

1. The liability of members of the Supervisory Board for damage caused to the company is defined in legal regulations.
2. Any provision of a contract between the company and a member of the Supervisory Board or these Articles of Association that excludes or limits a member of the Supervisory Board's liability for damage is invalid.

#### **Article 47**

##### Definition of Powers of the Supervisory Board

1. Within its remit, the Supervisory Board:



- a) Examines the report on business activity of the company and on the state of its property, including the report on accounting for funds from public budgets, and submits its opinion to the General Meeting;
- b) Approves the annual business plan including business strategy and company budget for operating railway transport;
- c) Gives its prior consent to the Board of Directors to conclude a contract on investment, operation, overdraft or another loan including any collateral for it;
- d) Gives its prior consent for acquiring, alienating, burdening and leasing real estate, movables and services for all contracts where the amount of performance exceeds the amount of CZK 20,000,000 (in words: twenty million Czech crowns);
- e) Gives its prior consent to the Board of Directors for the provision of financial assistance by the company (advances, loans, credits or other monetary performance, or the provision of collateral) for the purpose of obtaining shares or interim certificates in a company; the granting of such consent is a condition for the submission of an application by the Board of Directors (provision of financial assistance by the company) to the General Meeting for its decision on such proposal;
- f) Approves the procedural rules of the Supervisory Board and the procedural rules (statutes) of the Supervisory Board Committees;
- g) Reviews the ordinary, extraordinary, consolidated and, if any, interim financial statements and proposals for dividing profit as well as settling losses and submits its opinion to the General Meeting;
- h) Reviews the annual financial statements of independent accounting areas prepared by the Board of Directors and submits its opinion to the General Meeting;
- i) Convenes an extraordinary General Meeting if the company's interests so require;
- j) Proposes measures to the Board of Directors or General Meeting that it considers appropriate in the interests of the company;
- k) Requests information from the Board of Directors and from its members;
- l) Elects and dismisses the Chairman and other members of the Board of Directors;
- m) Approves draft contracts on the discharge of office between the company and a member of the Board of Directors, the commitment to the performance of office is a commitment of personal character;
- n) Approves draft contracts on the performance of office between the company and a registered agent;
- o) Proposes to the General Meeting the amount of all forms of remuneration having both a financial and non-financial character for the members of the Board of Directors;
- p) Submits to the General Meeting drafts of amendments and additions to these Articles of Association.

## 2. The members of the Supervisory Board:

- a) Are entitled to see all documents and records concerning the activity of the company, they are entitled to make excerpts and copies of these documents and records both in paper and in electronic form;
- b) Check if the accounting records of the company are being maintained duly and in line with reality, with valid legal regulations and with these Articles of Association;
- c) Check if the business activity of the company is realized in line with valid legal regulations, with these Articles of Association and with the instructions of the General Meeting;
- d) Represent the company against members of the Board of Directors during proceedings before courts and other bodies;

- e) Participate in the General Meeting of the company, where they can submit proposals for all matters being deliberated;
- f) Exercise other rights defined in valid legal regulations and in these Articles of Association.

#### Article 47a

##### Supervisory Board Committees

1. The Supervisory Board is empowered to establish various committee (hereinafter “Supervisory Board Committees”). Committee members may be Supervisory Board members or third persons.
2. Supervisory Board Committee members are appointed and withdrawn by the Supervisory Board. The term for Supervisory Board Committee members who are third persons is five (5) years, while the term for a Supervisory Board member also serving on a Supervisory Board Committee is identical to his term as a member of the Supervisory Board.
3. A member of a Supervisory Board Committee ceases to perform his function upon his death, withdrawal, resignation, expiration of term limit, or other legal reason. In the event that the Supervisory Board Committee member is also a member of the Supervisory Board, then his term on the Committee ends at the same time as his Supervisory Board membership. If a Supervisory Board Committee member ends his term, then the Supervisory Board must appoint a new Supervisory Board Committee member within three months. A Supervisory Board Committee member may resign from his position at any time by giving written notice to the Supervisory Board. In such case, he ceases to perform his function on the day the Supervisory Board discusses or had planned to discuss his resignation. If a Supervisory Board Committee member announces his resignation at a Supervisory Board meeting, then he ceases to perform his function two months after such notification, unless a different time for terminating his function is approved by the Supervisory Board. The function of a Supervisory Board Committee member is terminated upon the appointment of a new Supervisory Board Committee member, but no later than three months after the end of his term.
4. A Supervisory Board Committee member may not also be a member of the Board of Directors, a member of the Audit Committee, the General Manager of the company, its proxy, or other person authorized to act in the name of the company.
5. Each Supervisory Board Committee elects its own Chairman by majority vote of all members. The Chairman directs the activities of the Supervisory Board Committee.
6. Supervisory Board Committees meet as necessary, but at least twice annually.
7. Meetings of a Supervisory Board Committee are called by its Chairman or authorized member of this Supervisory Board Committee.
8. Each Supervisory Board Committee constitutes a quorum if all of its members have been duly invited to the Committee meeting, and if more than half of the members of the Committee are present.
9. Resolutions of Supervisory Board Committees require the approval of a simple majority of their members.
10. Minutes are kept of Supervisory Board Committee meetings, and are signed by the Chairman or other authorized member of the Committee. The minutes shall also record the standpoints of minority members, if they so request. The minutes must be archived for the entire period that the company is in existence.
11. Details regarding the manner in which Supervisory Board Committee meetings are to be run are set forth in the procedural rules (statutes) of each Supervisory Board Committee, which are approved by the Supervisory Board.“

**Section D**  
**Audit Committee**

The company establishes an Audit Committee.

**Article 48**  
Appointment of Audit Committee

1. Members of the Audit Committee are appointed and dismissed by the Company's General Meeting.
2. Members of the Audit Committee are appointed from the members of the Supervisory board or third parties and no less than one (1) member shall be independent of the audited person and the auditor, have three years of practical experience in the field of accounts or mandatory audit and have appropriate expert education in the field of auditing or bookkeeping.

**Article 49**  
Cessation of Membership of Audit Committee

1. Membership of the Audit Committee terminates upon the death of a member of the Audit Committee, his/her dismissal, his/her resignation from his/her position, the expiration of his/her term of office or due to other legal reasons.
2. In the event the term of office of a member of the Audit Committee ends, the General Meeting shall appoint a new member of the Audit Committee within three months.
3. A member of the Audit Committee can resign at any time from his/her position pursuant to the rights and obligations set in the agreement concluded between the member of the Audit Committee and the company, by a notification in writing sent to the General Meeting, in which case the performance of office ends on the day when the resignation is discussed or should have been discussed by the General Meeting, or to the Audit Committee, in which case the performance of office ends on the day when the resignation is discussed or should have been discussed by the Audit Committee; the Audit Committee shall notify the Supervisory Board of this fact without delay. If a member of the Audit Committee announces his/her resignation during a General Meeting or a meeting of the Audit Committee, the performance of his/her office ends two months after such an announcement, unless the relevant body to which the resignation was announced approves, on his/her request, another moment of cessation of the office.
4. The office of a member of the Audit Committee ceases upon the appointment of a new member of the Audit Committee, but no later than three months after the expiration of his term of office.

5. In the event of the cessation of membership of the Audit Committee, the Audit Committee may immediately appoint a substitute member of the Audit Committee until the next General Meeting, provided the number of members of the Audit Committee has not fallen below half.

#### **Article 50**

##### Number of Members of the Audit Committee and their Term of Office

1. The Audit Committee has three (3) members. The term of office of individual members of the Audit Committee is 5 years.
2. A member of the Audit Committee can be re-elected.
3. During a meeting, the Audit Committee elects and dismisses its Chairman by a majority of votes of all its members. The Chairman of the Audit Committee manages the activity of the Audit Committee.

#### **Article 51**

##### Convening of the Audit Committee

1. A meeting of the Audit Committee is convened by the Chairman of the Audit Committee or a member of the Audit Committee authorized thereby, as needed, but no less than four (4) times a year, usually in the registered office of the company. An invitation to a meeting of the Audit Committee may be delivered by personal delivery against confirmation, by registered letter, by delivery service or express courier or by fax and shall be sent at least ten (10) days before the day of the meeting. This term may be shortened with the consent of all members of the Audit Committee.
2. An invitation shall contain the following requirements:
  - a) Business name and registered office of the company;
  - b) Place, date and hour of the meeting;
  - c) Agenda of the meeting.
3. A meeting of the Audit Committee is held at any time this is requested in writing by any member of the Audit Committee, Supervisory Board, Board of Directors or shareholder, provided an urgent reason for convening is stated, no later than fifteen (15) days after such request is made.
4. The Audit Committee may invite members of the Board of Directors, members of the Supervisory Board or other parties to its meetings.

#### **Article 52**

##### Meetings of the Audit Committee

1. Meetings are chaired by the Chairman of the Audit Committee, in the event of his absence by a member of the Audit Committee designated by him (the chair). In the event that the Chairman of the Audit Committee does not designate such a person, the presiding member is a member of the Audit Committee elected by the Audit Committee.
2. Minutes of Audit Committee's meetings and their decisions shall be drafted and shall be signed by the Chairman of the Audit Committee; if the chairman of the Audit Committee did not chair the relevant meeting of the Audit Committee, the minutes are also signed by

the chair. Each member of the Audit Committee is entitled to give his dissenting opinion recorded in the minutes.

3. The costs related to meetings of the Audit Committee are borne by the company.

### **Article 53**

#### Form of Deciding of the Audit Committee and Its Quorum

1. The quorum of the Audit Committee is attained if an absolute majority of all its members is present at a meeting. The office of a member of the Audit Committee shall be performed in person.
2. The Audit Committee decides by voting, by an absolute majority of all its members. Each member has one vote.
3. In addition to a show of hands, the Audit Committee may vote using technical means at a meeting.

### **Article 54**

#### Decisions outside Meetings

1. If all members of the Audit Committee consent, the Audit Committee may take decisions outside meetings as well. In this case, however, all members of the Audit Committee shall express their views on a draft decision and the decision must be taken unanimously “per rollam.”
2. Decisions taken outside meetings shall be mentioned in the minutes of the closest meeting of the Audit Committee.
3. All organizational activity related to taking decisions outside meetings of the Audit Committee shall be arranged by the Chairman.

### **Article 55**

#### Obligations of the Members of the Audit Committee

1. The members of the Audit Committee shall exercise their powers as a careful manager and maintain confidentiality about confidential information and facts the disclosure of which to third parties might be detrimental to the company.
2. Only an individual who has fulfilled all the conditions defined in the Commercial Code for a member of the Supervisory Board may be a member of the Audit Committee.
3. A member of the Audit Committee may not also be a member of the Board of Directors, the company’s director general, the company clerk or another person authorized to act on the company’s behalf.
4. The prohibition on competition applies to a member of the Audit Committee in accordance with the provisions of the Commercial Code for a member of the Supervisory Board.

### **Article 56**

#### Information Duty

In the event that a member of the Audit Committee of the company is a statutory body, a member of a statutory or other body of a legal entity that is an entrepreneur and against whose assets a bankruptcy order has been granted, or if an insolvency application against such a

legal entity has been refused for a lack of property, he/she shall inform the General Meeting of this legal fact without delay.

### **Article 57**

#### Liability of Members of the Audit Committee for Damage to the Company

1. The liability of the members of the Audit Committee for damage caused to the company is defined in legal regulations.
2. Any provision of a contract between the company and a member of the Audit Committee or of these Articles of Association that excludes or limits the liability of a member of the Audit Committee for damage is invalid.

### **Article 58**

#### Definition of Powers of Audit Committee

1. As a part of its remit, the Audit Committee shall:
  - a) Monitor the progress of the drafting of the financial statements and the consolidated financial statements; in this context the Audit Committee shall also monitor the integrity of financial information provided by the company, in particular by reviewing the consistency and suitability of accounting methods used by the company;
  - b) Assess the effectiveness of internal controls in the company, the internal audit and any risk management system. In this context the Audit Committee also reviews and assesses the internal control, internal audit and risk management systems at least once a year, with regard to ensuring that the company's main risks are properly identified and managed, and also submits to the Board of Directors and Supervisory Board of the company recommendations regarding matters concerning an internal audit and supports the efficiency of the operation of the internal audit;
  - c) Monitor the process of the mandatory audit of the financial statements and the consolidated financial statements. In this context the Audit Committee also obtains and assesses information related to audit activities and reviews the efficiency of the mandatory audit;
  - d) Assess the independence of the statutory auditor and audit company, and, in particular, the provision of additional services to the audited entity. In this context the Audit Committee also monitors and assesses the auditor's independence and objectivity, works with the auditor and obtains and assesses information that could endanger its independence, reviews the nature and extent of additional services provided to the company by the auditor;
  - e) Recommend an auditor;
  - f) Receive and discuss with the auditor information, declarations and statements in accordance with legislation;
  - g) Submit to the General Meeting regular reports about the activities of the Audit Committee;
  - h) Monitor from its position whether the company is headed towards over-indebtedness, or whether the company is already over-indebted. If it ascertains that this is the case, it signals this state to the company's other bodies.

2. The Audit Committee also exercises other powers that may result from other regulations. The Audit Committee's remit is not affected by the remit of the company's other bodies in accordance with legislation and these articles of association.

**Section E**  
**The Director General**

**Article 59**  
Position and Powers of the Director General

1. The position of Director General is created in the company. The Director General is not a body of the company.
2. The Director General is entitled to manage the performance of the company's ordinary activities. His duties include, in particular:
  - a) Executing the decisions of company bodies;
  - b) Arranging the company's ordinary activities;
  - c) Exercising the powers entrusted to him as a company employee by the Board of Directors of the company;
  - d) Performing legal acts in labor relations on behalf of the employer.

**PART V**  
**Acting on Behalf of the Company**

**Article 60**  
Acting on Behalf of the Company

1. The Chairman of the Board of Directors acts separately or two members of the Board of Directors act together on behalf of the company. If those persons perform acts in writing on behalf of the company, they sign these acts by adding their signature to the business name of the company.
2. If the Director General is also a member of the Board of Directors of the company, he cannot be a mandatory of the company based on the title of his employment position or based on an authorisation of the Board of Directors either.

**PART VI**  
**Financial Management of the Company**

**Article 61**  
Fiscal Year

The company's fiscal year is the calendar year, unless legislation provides otherwise.

**Article 62**  
Billing and Financial Statements

1. The company is a single accounting unit. If it performs activities other than the activity of operating rail passenger transport, it shall maintain separate internal accounts for such activities.
2. The company may not transfer monies from activities for the operation of rail passenger transport paid for from public funds to other activities.
3. As a part of its separate internal accounts, the company shall maintain separate accounts for activities paid for from public funds in accordance with other legislation.
4. The company shall meet the duty of an audit of its annual financial statements for the independent accounting groups in accordance with the above sections through an auditor designated for this purpose by the ministry.
2. 5. Funds granted from the state budget, from territorial budgets or possibly from other public sources (state funds) cannot be used by the company in any other way than for the purposes fixed in advance. These funds are subject to clearing with the source and unused or incorrectly used means must be returned during annual clearing to the entity that granted them.
6. The Board of Directors shall submit the ordinary financial statements together with a proposal for dividing profit or possibly with a proposal for settling losses of the company and the annual financial statements of the separate financial areas for examination to the Supervisory Board, for verification to the auditor and for approval to the General Meeting of the company.
7. The Board of Directors shall send the ordinary financial statements, together with a proposal of dividing profit or possibly with a proposal for settling losses of the company and the annual financial statements of the separate financial areas, to the shareholders registered in the list of shareholders together with an invitation to the General Meeting.
8. The General Meeting can decide that a loss reported in the previous fiscal year can be moved to losses reported in previous accounting periods.

### **Article 63**

#### Method of Profit Distribution and Settling Losses

1. Net profit shall be used according to decisions of the General Meeting and in the following order, unless the General Meeting provides otherwise:
  - a) For allocations to the reserve fund;
  - b) For allocations to the social fund;
  - c) For other purposes set by the General Meeting;
  - d) To pay bonuses to the members of the Board of Directors and Supervisory Board;
  - e) To pay dividends to the shareholders.
2. The sum assigned to be divided into dividends is fixed by a decision of the General Meeting, which is not bound by the order given in paragraph 1 when deciding on the method of profit distribution. The General Meeting may also decide that the complete net profit or its undivided part shall be transferred to the retained earnings account. These retained earnings can be used by the same way as net profit. Profit of the company can also be used to increase the company's registered capital in accordance with the conditions defined in the Commercial Code.
3. The General Meeting decides on the way of settling possible losses of the company arising in the previous fiscal year.
4. Any losses arising during the economic management of the company may be settled especially from its reserve funds, unless the Commercial Code prohibits this. The General Meeting may decide further on the method of settling a loss:



- a) By using retained earnings;
- b) By using other funds of the company including capital funds and subscription surplus;
- c) By decreasing the registered capital of the company.

This order of ways for settling a loss is not binding for the General Meeting.

5. The General Meeting may also decide that the loss shall not be covered and shall be transferred to the retained earnings deficit account, unless legal regulations provide otherwise.

#### **Article 64**

##### **Reserve, Social and Other Funds of the Company**

1. The company shall create a reserve fund from net profit reported in the ordinary financial statements for the year in which it makes a profit for the first time, equaling 20% of net profit, but no more than 10% of the value of registered capital. This fund shall be supplemented annually by the sum of 5% of net profit until it is equal to 20% of the value of registered capital.
2. The Board of Directors decides on the use of the reserve fund, unless the Commercial Code or these Articles provide otherwise. The reserve fund thus created can be used only for settling losses.
3. The social fund is created pursuant to the law. The way of using the social fund is decided by the Board of Directors together with the appropriate trade union bodies.
4. The General Meeting can decide, based on a proposal of the Board of Directors, on the creation of other funds of the company and set rules for their creation and drawing on them.

#### **Article 65**

##### **Property and Liability of the Company**

The company is liable for its obligations with all of its property.

### **PART VII**

#### **Concluding Provisions**

#### **Article 66**

1. The General Meeting shall decide on any amendments to these Articles of Association.
2. A draft of amendments to these Articles of Association shall be prepared with regard to the mandatory provisions of legal regulations.
3. Should an amendment to these Articles of Association be on the agenda of a General Meeting, the invitation to the General Meeting shall at least characterize the nature of the amendments proposed and the draft amendments to these Articles of Association must be available to the shareholders for inspection at the company's registered office for thirty (30) days before the day of the relevant General Meeting. A shareholder is entitled to request a draft of the amendments to the Articles of Association at his own expense and risk. The shareholders shall be advised of these rights in the invitation to the General Meeting.

4. If, during a General Meeting, a shareholder intends to make counterproposals to the proposed amendments to these Articles of Association the content of which is mentioned in the announcement on the General Meeting, he shall deliver the text of his proposal in writing to the company at least five (5) working days before the day of the relevant General Meeting. The Board of Directors shall publish his counterproposal with its standpoint, if possible, at least three (3) days before the announced day of the General Meeting.
5. After the approval of amendments to these Articles of Association by the General Meeting, the Board of Directors shall arrange the drafting of a new full text of the Articles of Association and submit it to the appropriate court of registration. Amendments to these Articles of Association pursuant to Section 173 paragraph 2 of the Commercial Code take effectiveness on the day of their registration in the Commercial Register. Other amendments to these Articles of Association take effectiveness at the moment of their adoption by the General Meeting, provided the decision of the General Meeting on an amendment to these Articles of Association or the Commercial Code does not indicate that they take effectiveness later.

**Article 67**  
Archiving

The company shall archive documents relating to the company in accordance with legal regulations.

**Article 68**  
Effectiveness

The Articles of Association take effectiveness on the day of creation of the company.

**Minister of Transport and Communications of the Czech Republic**  
**Ing. Jaromír Schling**