IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore required to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED OUTSIDE THE UNITED STATES TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must be a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) who is outside the United States. By accepting the email and accessing this Prospectus, you shall be deemed to have represented to us that you are not, and that any customer represented by you is not, a U.S. person; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

Any materials relating to the potential offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, any offering shall be deemed to be made by the underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus may only be distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction. Recipients of this Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final Prospectus. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, Barclays Bank PLC, Erste Group Bank AG or Société Générale, any person who controls any such persons, or any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, Barclays Bank PLC, Erste Group Bank AG and Société Générale.

České dráhy, a.s.

(*incorporated as a joint stock company under the laws of the Czech Republic*)

EUR 300,000,000 4.50 per cent. Notes due 2016

The issue price of the EUR 300,000,000 4.50 per cent. Notes due 2016 (the "**Notes**") of České dráhy, a.s. (the "**Issuer**" or "**ČD**") is 99.479 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 24 June 2016. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Czech Republic. In addition, the holder of a Note may, by the exercise of the relevant option, require the Issuer to redeem such Note at its principal amount in the event of a Put Event (as defined in and in accordance with Condition 6). See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will bear interest from 24 June 2011 at the rate of 4.50 per cent. per annum payable annually in arrear on 24 June in each year commencing on 24 June 2012. Payments on the Notes will be made in EUR without deduction for or on account of taxes imposed or levied by the Czech Republic to the extent described under "*Terms and Conditions of the Notes—Taxation*".

This prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the Luxembourg competent authority for the purpose of Article 13 of Directive 2003/71/EC (the "**Prospectus Directive**") as a prospectus, and constitutes a prospectus for the purposes of Article 5.3 of the Prospectus Directive. Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market.

The Notes have been rated Baa1 (negative outlook) by Moody's Investors service, Inc. ("**Moody's**"). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Moody's is a credit rating agency established and operating in the European Community prior to 7 June 2010 and has submitted an application for registration in accordance with the CRA Regulation and, as at the date of this prospectus, such application for registration has not been refused.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 24 June 2011 (the "**Closing Date**") with a common safekeeper for Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg, 42 Avenue J.F. Kennedy, L-1855 Luxembourg, ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000 and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

Joint Lead Managers

BARCLAYS CAPITAL **ERSTE GROUP BANK AG** **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING**

22 June 2011

CONTENTS

Page

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to the Managers named under "*Subscription and Sale*" below (the "**Managers**") that this prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Managers.

Neither the Managers nor any of their respective affiliates have authorised the whole or any part of this prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this prospectus. Neither the delivery of this prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this prospectus.

This prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

In this prospectus, unless otherwise specified, references to a "**Member State** are references to a Member State of the European Economic Area, references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended and references to "**CZK**" are to the Czech Koruna, the lawful currency of the Czech Republic. References to "**billions**" are to thousands of millions.

Certain figures included in this prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

This prospectus contains various forward-looking statements that relate to, among others, events and trends that are subject to risks and uncertainties that could cause the actual business activities, results and financial position of the Issuer to differ materially from the information presented herein. When used in this prospectus, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Issuer and its management, are intended to identify such forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. The Issuer does not undertake any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

When relying on forward-looking statements, investors should carefully consider the foregoing risks and uncertainties and other events, especially in light of the political, economic, social and legal environment in which the Issuer operates. The Issuer does not make any representation, warranty or prediction that the factors anticipated by such forward-looking statements will be present, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

OVERVIEW

This overview must be read as an introduction to this prospectus and any decision to invest in the Notes should be based on a consideration of the prospectus as a whole, including the documents incorporated by reference. No civil liability attaches to the persons responsible for this overview in any Member State of the European Economic Area which has implemented the Prospectus Directive solely on the basis of this overview, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus, including any information incorporated by reference. Where a claim relating to the information contained in this prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State, be required to bear the costs of translating the prospectus before the legal proceedings are initiated.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this prospectus have the same meanings in this overview.

The Issuer:	České dráhy, a.s., incorporated in the Czech Republic
Joint Lead Managers:	Barclays Bank PLC Erste Group Bank AG Société Générale
The Notes:	EUR 300,000,000 4.50 per cent. Notes due 2016
Issue Price:	99.479 per cent. of the principal amount of the Notes.
Issue Date:	Expected to be on or about 24 June 2011.
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer to finance a portion of its capital investment plan. See "*Use of Proceeds*".
Interest:	The Notes will bear interest from 24 June 2011 at a rate of 4.50 per cent. per annum payable annually in arrear on 24 June in each year commencing 24 June 2012.
Status:	The Notes are senior, unsubordinated, unconditional and unsecured obligations of the Issuer.
Form and Denomination:	The Notes will be issued in bearer form in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000. The Temporary Global Note and the Permanent Global Note are to be issued in new global note form. The Global Note Certificate is to be held under the New Safekeeping Structure
Final Redemption:	24 June 2016.
Optional Redemption:	Upon the occurrence of a Put Event (as defined below) Notes will be redeemable at the option of the Noteholders on a date or dates specified prior to their stated maturity, as further described in Condition 6 (*Redemption and Purchase*).
Tax Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, for taxation reasons, in accordance with Condition 6 (*Redemption and Purchase*).
Negative Pledge:	The terms of the Notes contain a negative pledge provision as further described in Condition 3 (*Negative Pledge*).

Cross Default:	The terms of the Notes contain a cross default provision as further described in Condition 9(c)(*Cross-default of Issuer or Subsidiary*).
Rating:	The Notes have been rated Baa1 (negative outlook) by Moody's.
Withholding Tax:	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer will be made free and clear of withholding taxes of the Czech Republic unless the withholding of such taxes is required by law. In that event the Issuer will gross-up the payment, subject to certain exceptions, all as described in Condition 8 (*Taxation*).
Governing Law:	The Notes, the Fiscal Agency Agreement, the Deed of Covenant, and the Subscription Agreement will be governed by English law.
Listing and Trading:	Applications have been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market.
Clearing Systems:	Euroclear and Clearstream, Luxembourg
Selling Restrictions:	See "*Subscription and Sale*".
Risk Factors:	Investing in the Notes involves risks. See "*Risk Factors*".
Financial Information:	See "*Selected Financial and Operating Information*" and "*Financial Statements and Auditor's Reports*".

RISK FACTORS

Prospective investors should read the entire prospectus. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this prospectus have the same meanings in this section. Investing in the Notes involves certain risks. Prospective investors should consider, among other things, the following:

RISK FACTORS RELATED TO THE GROUP'S BUSINESS

Business risks

Potential changes in the structure of the Group

The government of the Czech Republic (the "**Government**") has decided to restructure ČD and its subsidiaries (the "**Group**") pursuant to its resolution dated 25 July 2007 approving the document '*Restructuring of joint stock company ČD and SŽDC*'. The most recent step in such restructuring includes the transfer of employees to the state-owned Railway Route Administration (*Správa železniční dopravní cesty, státní organizace*) ("**SŽDC**") pursuant to Government resolution dated 9 February 2011. Such changes will implement the provisions set by the EU Commission in its first Railway Package. The plans for the restructuring of the Group have not been fully finalised and it is possible that core-assets that are material to the provision of passenger services may be transferred outside of ČD but not outside the Group.

By its nature, any reorganisation, sale of assets or transfer of employees within the Group or to third parties, although planned from the outset, cannot be regarded as free from risk due to a number of various and complex assumptions that have to be made. It is possible that some or all of these assumptions may not prove to be correct in the future. Moreover, the success of the reorganisation may be impacted by third parties or events which are not within the scope of the Group's influence. In the event that the reorganisation, sale or transfer does not lead to the anticipated results, it may have a material adverse effect on the Group's business, results of operations or financial position.

Adequate ongoing investment in maintenance, capital investment or modernisation to ensure ongoing business operations

The Group may encounter situations when it is not able, for any reason, to secure sufficient funding for investments in assets or general business operations. This may result in obsolescence or deterioration of the quality of certain assets which may impact the quality of service provided to customers, including an increased risk of accident or injury. In addition, insufficient investment or maintenance may breach certain agreements with third parties (for example, insurance contracts and contracts with the Czech Republic (the "**State**") and the Czech regions, including the city of Prague, concerning the provision of public service passenger transportation) and, thereby, breach other duties, leading to increased liabilities of the Group and may cause the members of the Group to lose their licences. The above can have a material adverse effect on the Group's business, results of operations or financial position.

The Group is exposed to competition from other transport companies

Due to ongoing liberalisation of passenger transport services, it may become less certain that ČD will be awarded public passenger contracts in the future. If the current long-term contracts in place with the State, and the Czech regions, including the city of Prague, were to be revoked or in some way materially reduced or amended then this could have a material impact on the Group's business, results of operations or financial position. It is possible that there may be a challenge to ČD's monopoly position in certain areas and that other rail operators will increasingly compete on the regulated or commercial routes in the future, which may have a material adverse impact on the Group.

ČD Cargo, a.s. ("**ČD Cargo**") currently competes against other companies that provide rail freight transportation, truck freight transportation and to a smaller extent ship carriers and providers of tube transportation systems.

Any technological or other advantage developed by a competitor may have a material adverse impact on the Group.

The Group may be adversely affected as a provider of transport services held responsible for damage caused to third parties

The Group's transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment, natural disasters, terrorist attacks or sabotage. An accident, derailment or other incident involving the Group's railway operations could result in damage or loss to the Group's property, locomotives and rolling stock and also disrupt the Group's services and give rise to potential claims by freight shippers, injured passengers and others. In addition, it could have a material adverse impact on the attractiveness of the Group's services in the future. An adverse change in the perception of the Group's safety record could result in customers switching to other means of transportation, or in public pressure to force the Government to divest some of the Group's operations to third-party operators. As a carrier and operator of rolling stock, the Group may also be responsible for spillage or leakage from rolling stock transporting environmentally sensitive materials, the cost of which may exceed any reimbursement received from relevant insurance. In the event of a serious accident involving passengers the Group may also need to provide additional assistance to the affected passengers, in excess of any reimbursement from insurance payments. If a significant uninsured event was to occur, which would cause the Group to incur significant unbudgeted expenditure, this could have a material adverse effect on the Group's business, results of operations or financial position.

The Group is dependent on the timetables established with and quality of services provided by third parties

The ability of the Group to provide rail transport services is contingent, to a greater extent, upon the timetables to be established by SŽDC with other transport providers. Adverse changes in SŽDC's financial stability, quality of services provided by them or their stance on cooperation with the Group may have a material adverse impact on the Group's ability to provide adequate quality of service to its customers or may force the Group to use alternative routes, both of which in turn may increase operation costs or inefficiencies.

The Group's performance is contingent upon informational systems and technologies

Significant disruption to informational systems, including computer hardware, software or communication devices, may lead to operation stoppages, breach of security policies or other problems that may have an adverse effect on the Group. In addition, should the Group not have sufficient sources of funds to acquire such systems or put them in operation, ČD's competitiveness may be harmed and this would have an adverse impact on the Group.

The Group may be unable to retain key personnel or attract and retain highly qualified personnel and may also be adversely affected by wage increases

The Group currently employs managers and other personnel with significant industry experience. The Group's business requires specific knowledge of the industry and it is, therefore, dependent on the current management and other highly qualified personnel. In the event of a shortage of such personnel, the Group may need to increase the levels of its employee compensation more rapidly than in the past to remain competitive. If the Group increases employee compensation, there can be no assurance that the Group will be able to increase revenue or cover the extra costs or to pass on the extra costs to customers through increases in its prices. If the Group does not maintain competitive compensation rates, it may be unable to recruit and retain a skilled workforce, which could have a material adverse effect on its ability to maintain its current market position or execute its strategic goals.

The Group is party to a collective bargaining agreement, which may restrict the Group's flexibility with respect to its employees. If the Group is unable to reduce its workforce without violating the terms of its collective bargaining agreement and in a socially responsible manner, while also retaining qualified personnel required to effectively operate its business, it could have a material adverse effect on the Group's business, operating results or financial position.

The Group may be adversely affected by industrial actions triggered by the Labour unions or third parties

In the event of industrial action, the Group's employees may cease or suspend working which may harm the Group's productivity or operations. Newly negotiated terms may be put in place as a result of any industrial action which may significantly increase the costs of the Group in relation to, among others, healthcare costs, wages and salaries or other costs. Any increase in the Group's costs, which is not accompanied by commensurate increases in efficiency and productivity, will adversely affect the Group's business, financial condition and results of operations.

In May 2011, labour unions active within the Group indicated their intent to conduct a strike should an agreement regarding their demands concerning, among others, pension, social, health and tax reforms not be reached. This or any other strikes could have a negative impact on the Group's business, financial condition and results of operations.

The Group can be affected by the nature of its contracts with suppliers

Suppliers providing goods or services to the Group need to fulfil certain specific technical requirements that cannot be met by all suppliers, thus restricting the Group's choices and competitiveness among suppliers. Any changes in relation to technical requirements on suppliers may cause a decrease in the number of suppliers the Group can choose between, an increase in prices, a significant lack of supply or delays that may adversely affect the Group's business, financial condition and results of operations.

The Group is exposed to risks arising from investment activities

Modernisation of locomotives or rolling stock bears significant capital expenditures coupled with a number of very complex investment risks. Changes in the legal framework, delays of supplies and subsequent delays in putting newly acquired equipment into operation may have adverse effects on the Group's ability to fulfil the scope of services as per contracts with third parties in relation to passenger or freight transportation and may harm the Group's business, financial condition and results of operations. Such changes may also harm the Group's ability to compete in tenders for both passenger and cargo services.

The Group is exposed to commodity risks

As purchases of diesel or electricity represent significant costs to the Group which can be subject to price volatility, the Group decided to enter into hedging contracts in relation to electricity and diesel supplies. Any significant increases in fuel or electricity prices can have adverse affects on the Group's results, predominantly in the future.

In addition, the availability of fuel or energy can be subject to limitations on their supply or to laws (which may or may not come into effect) stipulating mandatory allocation or contribution systems of such supplies. Should significant stoppage of fuel or energy supplies be caused by cancellations or limitations on extraction or import of gas or other commodities, outages or limitations on power production or refinery production, damaged transmission infrastructure, political uprisings, wars or by any other means, the Group's business, financial condition and results of operations may be adversely affected in the respective accounting year.

The Group is exposed to interest rate risks

The Group utilises external financing that bears floating or fixed interest rates. Any changes in floating interest rates or any changes in fixed interest rates of contracts to be entered into, or the Group's limited ability to enter into such contracts bearing or resulting in fixed interest rates could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to liquidity risks

The Group may have, in certain cases in the future, limited access to short-term financing or may incur obstacles in terms of securing short-term funding when experiencing liquidity issues. The exposure to liquidity constraints could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to foreign currency risk

ČD is exposed to foreign currency exchange rate risk mainly in relation to the Euro (amongst other currencies), predominantly arising from ČD Cargo operations. Any loss resulting from a fluctuation in the Euro or any other foreign currency exchange rates could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to credit risk

The Group monitors its exposure to credit risk of third parties on a regular basis. Nonetheless, the monitoring cannot guarantee that the Group will prevent all losses or liquidity constraints incurred in relation to credit issues of third parties. Any such credit issues could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to operational risks

If there are frequent delays or cancellations in respect of services provided this can result in a loss of customers and this can negatively affect the Group's business, financial condition and results of operations. The Group is aware of a continuous trend in transport agreements to stipulate terms of conditions in respect of qualitative criteria and then to impose financial sanctions for the Group if such criteria are not complied with. This may be further regulated by stricter rules imposed by the European Union ("**EU**") in the future which will also regulate regional rail transport.

ČD relies on compensation payable to it by the State, the regions and the city of Prague in respect of public passenger rail services

ČD provides both long distance and regional passenger rail services in the public interest. The State compensates ČD for verifiable loss incurred by ČD when providing such long distance passenger rail services. The regions, including the city of Prague, compensate ČD for verifiable loss incurred by ČD when providing such regional passenger rail services provided that a part of such compensation payable by the relevant region, including the city of Prague, to ČD is funded by the State. In its resolution dated 27 April 2011, the Government approved the freezing of expenses to be used to fund the railway and combined transportation in 2011 in the amount of CZK 1,866 million. While this decision may be changed at a later date, no assurance can be given in this respect, and such a freeze may have an adverse effect on the Group's business, results of operations or financial position. Any failure by the State or any region, including the city of Prague, to pay such compensation to ČD or any failure by the State to fund its part of the compensation payable to ČD by any region, including the city of Prague, whether pursuant to the above resolution or otherwise, can have a material adverse impact on the Group.

Industry risks

The gradual opening of the Czech passenger rail market to competition

ČD provides the vast majority of passenger rail services in the Czech Republic to the State and the regions, including the city of Prague. The Government has declared its intent to gradually tender those services in a competitive process. Eight Czech regions are not allowed to undertake a competitive tender. However, five Czech regions and the city of Prague as well as the State are allowed, but not obliged, to do so. Consequently, in any future tender, ČD might not be awarded some or all tendered contracts. Should this scenario occur, it may have a material adverse effect on the Group's business, results of operations or financial position.

Country risks

Insolvency of the Czech Republic, the regions or the city of Prague

A significant amount of ČD's revenues are generated through compensation received from the State and the regions, including the city of Prague's, budgets. Any insolvency issues incurred, or austerity measures undertaken, by the State or the regions, including the city of Prague, may have a material adverse effect on the Group and may harm the Group's ability to meet its liabilities.

The Group's business is dependent on the quality of the rail network owned and maintained by third parties

The rail network in the Czech Republic is owned and operated by SŽDC. As customers' satisfaction is hugely dependent on the quality of the rail network, any changes leading to a deterioration of the rail network or a complacent position taken towards other forms of transport may have a material adverse effect on the Group's business, results of operations and financial position.

An increase of costs incurred in relation to using the rail network poses risks to the Group

ČD as well as other rail transport providers in the Czech Republic incur costs paid to SŽDC for the usage of the rail network. These costs, expressed as a maximum price per unit, are set by SŽDC following an assessment by the Ministry of Transport. Any increases in the amount to be paid to SŽDC, not accompanied by equivalent pro-rated compensation from parties ordering public service, would have an adverse impact on the Group. In case of cessation of business by SŽDC, any potential negotiations or standstills with its successor may pose risks to the Group.

Czech insolvency law

Czech courts would have jurisdiction to open insolvency proceedings in respect of a debtor provided that the centre of the debtor's main interests is situated in the Czech Republic within the meaning of the Council Regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings, as amended. Czech Act No. 182/2006 Coll., on insolvency and methods of its resolution, as amended, might, in certain aspects, significantly differ from insolvency laws in other jurisdictions or might not apply at all (e.g., if the State or a region assumes or guarantees all debts of the debtor prior to the commencement of insolvency proceedings). It may be that the Czech insolvency law as applied in the practice of Czech courts does not protect creditors' rights as efficiently as laws of other jurisdictions or at all and thus, such lack of protection may have an adverse impact on the rights of the companies within the Group upon insolvency of their debtors as well as on the rights of the Noteholders under the Notes upon insolvency of ČD.

Changes in laws or regulations in the Czech Republic may have a material adverse impact on the Group

The Group is subject to a number of laws and regulations including, among others, the Czech and EU railway transport law, tax laws, environmental protection laws, public procurement laws and anti-trust laws. Changes in these laws or regulations may materially impact the Group. For example, on 25 May 2011 the Government submitted to the Parliament a proposal for a new law contemplating an increase in the reduced value added tax ("**VAT**") rate from 10 to 14 per cent. with effect from 1 January 2012, and the introduction of a single VAT rate of 17.5 per cent. with effect from 1 January 2013. As passenger transport in the Czech Republic is subject to a reduced VAT rate and fare prices in passenger non-commercial transport, including the applicable VAT, are capped by a Government regulation, any increase of the applicable VAT rate may lead to lower net income of ČD or a potential outflow of ČD's customers (if the increase of the VAT rate would be followed by an increase of regulated fare prices). Accordingly, if this proposed new law is enacted or if the applicable VAT rate is increased pursuant to any other laws, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

The Group can incur limitations on procurement due to the Public Tender Procurement Law

The Group is subject to public procurement rules stipulated in the Act (137/2006 Coll.) on Public Contracts, as amended (the "**Public Procurement Act**") when tendering services and supplies with value exceeding CZK 2 million, or approximately CZK 10 million in certain circumstances, in each case excluding the applicable value added tax. In the event of a qualified tender under the Public Procurement Act, the Group may be limited in its ability to procure such tender in a timely manner, which may have adverse effect on the Group's business, financial condition and results of operations.

Risks arising from terrorist acts or war conflict

Potential terrorist acts or similar events, the reaction of the Czech Republic to such acts or events, and war or conflict or the threat of war or conflict can significantly disrupt the Group's activities. Given the Group's size and activities, the Group is considered as a strategic asset to the Czech Republic and thus the Group can be targeted during such conflicts or can be used by the Czech Republic in response to such attacks.

Other risk factors related to Czech Republic

If the Czech economy performs poorly, the Group's business could be impacted negatively

The Group's revenues are sensitive to the performance of the Czech economy. A significant portion of its assets and operations are located in the Czech Republic and the Group derives a substantial majority of its revenues from the domestic market. Changes in economic, regulatory, administrative or other policies of the Government, as well as political or economic developments in the Czech Republic (including potential changes in the Czech Republic's credit ratings) over which the Group has no control, could have a significant effect on the Czech economy, which in turn could have a significant effect on the Group's business, prospects, financial conditions or results of operations or the Group's ability to proceed with its business plan.

Political developments in the Czech Republic could negatively impact economic conditions in the Czech Republic

Parliamentary and government composition may have an adverse effect on the overall economic stability of the Czech Republic and consequently on the Group's economic and financial situation. ČD can give no assurance that any change in government will continue the economic, fiscal, and regulatory policies of former governments, nor can there be any assurance that any changes in such policies will not have a material adverse effect on the Group's business, prospects, financial condition or result of operations.

Change of law

The structure of the issue of the Notes, and the contractual documents related thereto are based on English and Czech laws in effect as at the date of this prospectus. No assurance can be given as to the impact of any possible judicial decision or changes to English or Czech laws, the interpretation thereof or administrative practice after the date of this prospectus. The interpretation of certain provisions of Czech law, in particular commercial, financial and bankruptcy laws, is not well established due to little precedent upon which to rely in rendering an opinion as to sophisticated commercial and financial transactions between private parties. Furthermore, these laws are subject to changes and interpretation in a manner which cannot be currently foreseen and anticipated, and which may affect the rights and obligations arising in connection with the transaction.

Other risks

Global economic conditions can adversely impact the Group's results

Economic conditions affecting current or potential customers of the Group may have an adverse impact through lesser demand for the Group's services. Any lower demand or potential insolvency events of the Group's customers may pose risks to the Group in relation to the Group's business, financial condition and results of operations.

Adverse weather conditions or force majeure may cause significant delays or expenditures

Adverse weather conditions, natural disasters or other adverse force majeure events may disrupt the normal conduct of business and may increase costs and liabilities or decrease revenues which may ultimately have an adverse impact on the Group's business, financial condition and results of operations.

Risks arising from outbreak of pandemic diseases

The Group's business activities can be adversely affected by any pandemic diseases having an impact on the Group's employees or on demand for passenger services. The Group cannot guarantee that any plans implemented by the Group in respect of the risks associated with these diseases will fully avoid any adverse impacts on the Group.

RISK RELATING TO THE NOTES

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes may be redeemed prior to maturity.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Czech Republic or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Change of tax law

Statements in this prospectus concerning the taxation of investors are of a general nature and are based upon current tax law and published practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in the Issuer's tax status or in taxation legislation or in practice in a relevant jurisdiction could adversely impact (i) the ability of the Issuer to service the Notes and (ii) the market value of the Notes.

Modification and waivers and substitution

The "*Terms and Conditions*" below contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Change in Law

The "*Terms and Conditions*" below are based on English law in effect as at the date of issue of the relevant Notes. No assurances can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

In any proceedings taken in the Czech Republic for the enforcement of the obligations of the Issuer under any contract governed by English law, the Czech courts should recognize the choice of English law as the governing law of such contract subject to the provisions of Regulation (EC) No 593/2008 of the European Parliament and of the Council on the law applicable to contractual obligations (the "**Rome I Regulation**"). However, to the extent the rules of the Rome I Regulation do not apply to unilateral acts, Czech Act No. 97/1963 Coll., on international private and procedural law, as amended, does not explicitly provide for free choice of law in respect of such unilateral acts. Consequently, if a Czech court considered the Deed of Covenant, the Terms and Conditions or the Notes to be unilateral acts and failed to recognise the choice of English law as the governing law of those instruments, such failure could have adverse impact on enforceability of any obligation of the Issuer under the Deed of Covenant, the Terms and Conditions or the Notes.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Minimum Denomination

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of EUR100,000 (or its equivalent) that are not integral multiples of EUR100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

Credit Rating

The Notes have been assigned a rating of Baa1 (negative outlook) by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

Certain assets of the Issuer may be subject to immunity and/or the Issuer may be obliged to provide certain services and assets to the State or other persons

The Issuer carries out passenger and freight transport business and provides passenger transport services in public interest. Since such parts of the Issuer's operations might be of importance in specific situations (including, among others, any force majeure events) or for specific purposes (including, among others, military or public interest), under the applicable laws, the Issuer's assets (or a portion thereof) used to carry out such operations may be subject to immunity from execution or other legal process, and/or the Issuer may be obliged to provide certain services and assets to the State or other persons, in such situations or for such purposes. This could potentially adversely affect the pool of assets available for enforcement of any obligation of the Issuer under the Notes and/or may have a material adverse effect on the Group's business, financial condition and results of operations.

INFORMATION INCORPORATED BY REFERENCE

The annual non-consolidated financial statements of each of the Issuer and of CD Cargo in respect of each of the financial years ended 31 December 2010 and 31 December 2009, prepared in accordance with accounting regulations applicable in the Czech Republic ("**Czech GAAP**"), shall be deemed to be incorporated in, and to form part of, this Prospectus including the information set out at the following pages of the Issuer's and CD Cargo's 2010 and 2009 financial statements or annual report, respectively:

České dráhy a.s.

2009

2010

ČD Cargo a.s.

2009

2010

The information listed above is given for the purposes of information only. Copies of the documents specified above as containing information incorporated by reference in this Prospectus are available from the website of the Luxembourg Stock Exchange (*www.bourse.lu*) and, may be inspected during normal business hours at the registered address of the Issuer for 12 months from the date of this prospectus. Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The EUR 300,000,000 4.50 per cent. Notes due 2016 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of České dráhy, a.s. (the "**Issuer**") are the subject of a fiscal agency agreement dated 24 June 2011 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are serially numbered and in bearer form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000 with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. Status

The Notes constitute direct, general, unconditional and, subject to Condition 3, unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement):

(a) the Issuer shall not create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness; and

(b) the Issuer shall procure that none of its Subsidiaries will create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness,

without at the same time or prior thereto (i) securing the Notes equally and rateably therewith or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

In these Conditions:

"**Audited Statements**" means the Issuer's audited annual financial statements (consolidated, if applicable) prepared in accordance with the International Financial Reporting Standards as adopted by the EU ("**IFRS**");

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Hedging Obligations**" means, with respect to the Issuer, the obligations pursuant to:

(a) any interest rate swap agreement, interest rate cap agreement or interest rate collar agreement or any other agreement or arrangement designed to protect such entity against fluctuations in interest rates; or

(b) any foreign currency futures contract or option agreement or any other agreement or arrangement designed to protect such entity against fluctuations in foreign currency rates;

"**Indebtedness**" means any indebtedness (other than a trade payable arising in the ordinary course of business) of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases, including, without limitation, sale and lease back transactions;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Material Subsidiary**" means, at any time, any Subsidiary of the Issuer, whose total assets attributable to the Issuer represent more than 10 per cent. (based on net book value under IFRS or in accordance with Czech GAAP, in case such Subsidiary does not report under IFRS) of the Total Assets or revenues of the Issuer and the Subsidiaries, all as determined by reference to the most recent audited financial statements (or, as the case may be, audited consolidated financial statements) of such Subsidiary and the most recent consolidated Audited Statements, provided that a certificate of the Auditors (as defined in the Agency Agreement) of the Issuer that, in their opinion, any Subsidiary of the Issuer is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of a manifest error, be conclusive and binding on all parties;

"**Permitted Security Interest**" means:

(a) any Security Interest in existence on 22 June 2011 to the extent that it secures Indebtedness outstanding on such date;

(b) any Security Interest arising by operation of law and in the ordinary course of business of the Issuer or any of its Subsidiaries which does not (either alone or together with any one or more other such Security Interests) materially impair the operation of such business and which has not been enforced against the assets to which it attaches, including, without limitation, any Security Interest subsisting in a security transfer of ownership (*zajišťovací převod práva*); and

(c) any Security Interest granted upon or with regard to any property or assets to secure the purchase price thereof or the cost of improvement or repair of all or any part of such property or assets or to secure Indebtedness incurred solely for the purpose of financing the acquisition, improvement (including costs such as interest incurred during construction and finance costs) or repair of all or any part of such property or assets and transactional expenses related thereto provided that the maximum amount of Indebtedness secured by any such Security Interest does not exceed the purchase price or cost of improvement or repair of such property or assets (such purchase price assessed in terms of the transaction as a whole) or the Indebtedness incurred solely for the purpose of financing the acquisition, construction, improvement or repair of such property or assets;

(d) any Security Interest created pursuant to the financing by the European Investment Bank ("**EIB**") of up to CZK 4,000,000,000 of regional rolling stock as approved by the EIB on 14 July 2010, provided that such security does not exceed 115 per cent. of the total purchase price of such regional rolling stock (assessed in terms of the transaction as a whole);

(e) any Security Interest granted pursuant to Hedging Obligations of the Issuer;

(f) any Security Interest on or relating to any property or assets hereafter acquired by the Issuer and existing on the date of acquisition (so long as such Security Interest was not created in contemplation of the acquisition of such property or assets);

(g) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

(h) any Security Interest acquired from a Person which is merged with or into the Issuer or any Security Interest existing on any asset of a Person which existed at the time such Person becomes a Subsidiary of the Issuer (so long as such Security Interest was not created in contemplation of such Person being merged with or into the Issuer or becoming a Subsidiary of the Issuer);

(i) any Security Interest over assets of a Subsidiary which secures only Indebtedness owing by such Subsidiary to the Issuer or to a wholly-owned Subsidiaries of the Issuer;

(j) any Security Interest created in connection with any judicial or administrative proceedings, provided that the Issuer defends itself duly against the related claim, until the final and non-appealable judicial or administrative decision in respect of such claim is given; and

(k) any Security Interest that does not fall within paragraphs (a) to (g) above and that secures Indebtedness which, when aggregated with Indebtedness secured by all other Security Interests permitted under this sub-paragraph, does not exceed EUR 10,000,000 (or its equivalent in other currencies);

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. **Limitation on Asset Sales**

The Issuer shall not, and shall procure that each of its Subsidiaries does not, sell, lease, transfer or otherwise dispose of (each such action, a "**disposal**") by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets to any person, except where:

(a) the consideration received by it or its relevant Subsidiary is not less than the Fair Market Value of the assets disposed; and

(b) immediately before giving effect to such disposal, no potential Event of Default shall have occurred and be continuing or would occur.

"Fair Market Value" means with respect to any property or asset, the fair market value of such property or asset at the time of the event requiring such determination as determined in good faith by the Issuer or with respect to any asset or property in excess of EUR 15,000,000, as determined by an independent appraiser (which shall be: an investment banking firm, an accountancy firm, an appraiser or external audit firm, in each case which is reputable and in good standing) selected by the Issuer, provided it is not an affiliate of the Issuer or any Subsidiary.

5. **Interest**

The Notes bear interest from 24 June 2011 (the "**Issue Date**"), at the rate of 4.50 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 24 June in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR 4,500 in respect of each Note of EUR 100,000 denomination and EUR 45 in respect of each integral amount of EUR 1,000 denomination thereafter. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means EUR 1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in such period, from (and including) the first day to (but excluding) the last day, divided by the number of days in the Regular Period in which such period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

6. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 24 June 2016, subject as provided in Condition 7 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Czech Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 24 June 2011; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent:

(A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Conditions 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

(c) *Redemption at the option of the Noteholder following a put event*: If at any time while any Note remains outstanding, either of the following events occurs (each, as applicable, a "**Put Event**"):

(i) A Change of Control; or

(ii) A Restructuring Event; and

(A) (if at the start of the Put Event Period the Notes are rated by any Rating Agency with a rating above Investment Grade) a Rating

Downgrade occurs and the Notes are not restored by such Rating Agency within such Put Event Period to an Investment Grade rating; or

(B) (if at the start of the Put Event Period the Notes are rated by any Rating Agency with a rating below Investment Grade) a Rating Downgrade occurs and the Notes are not restored by such Rating Agency within such Put Event Period to a rating of a level equivalent to its rating at the start of the Put Event Period; or

(C) (if at the start of the Put Event Period the Notes are not rated by any Rating Agency) within 21 days thereafter a rating in respect of the Notes has not been obtained which is at least as high as a rating equivalent to the lower of: (i) Investment Grade; or (ii) a rating that is three notches below the rating assigned to the Czech Republic at such time,

then the Holder of each Note will have the option (the "**Put Option**") (unless, prior to the giving of the Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 6(b) (*Redemption for tax reasons*)) to require the Issuer to redeem that Note on the Optional Redemption Date (as defined below), at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) accrued interest up to but excluding the Optional Redemption Date.

For the purposes of this Condition:

"**Change of Control**" shall be deemed to have occurred if the government of the Czech Republic ceases to own, directly or indirectly (through any governmental agency or political subdivision thereof or otherwise), 75 per cent. or more of the issued ordinary share capital of the Issuer or otherwise ceases to have Control of the Issuer;

"**Control**" means the power to direct the management and policies or affairs of an entity, directly or indirectly, and whether through the ownership of voting capital, by contract or otherwise;

"**Put Event Period**" means the period: (i) commencing on the date that is the earlier of (A) the date of the first public announcement of the relevant Change of Control or Restructuring Event and (B) the date of the earliest Potential Put Event Announcement (as defined below), if any; and (ii) ending on the date which is 90 days after such date specified in (i) above;

"**Investment Grade**" means BBB-/Baa3, or their respective equivalents for the time being, or better;

"**Rating Agency**" means any of the following: (i) Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.; (ii) Moody's Investor Services, Inc.; (iii) Fitch Rating Limited or (iv) any other rating agency of equivalent international standing specified from time to time by the Issuer, and, in each case, their respective successors or affiliates;

a "**Rating Downgrade**" shall be deemed to have occurred if, within the Put Event Period, the rating assigned to the Notes by any Rating Agency is: (i) withdrawn; or (ii) lowered by one or more notches;

"**Potential Put Event Announcement**" means any formal public announcement or statement by the Issuer or a formal resolution of the government of the Czech Republic, relating to any specific or potential Change of Control or Restructuring Event to occur within 90 days of the date of such announcement or statement;

"**Relevant Cargo Assets**" means the shares in ČD Cargo, a.s.;

"Relevant Passenger Assets" means those assets relating to the operation of passenger rail services in the Czech Republic (including, for the avoidance of doubt, all regional, long-haul, high-speed and commercial passenger services), and including, *among others*, all engines, train sets, rolling stock, railtrack, real estate and communication systems, which are necessary for the provision of such services; and

"**Restructuring Event**" means any restructuring of the business of the Issuer and its Subsidiaries following the consummation of which there is a change in:

(i) the legal or beneficial control and/or ownership of more than 50 per cent. of the Relevant Cargo Assets and/or its related cashflows, whether or not the Issuer or a Subsidiary of the Issuer continues to control the operation of such Relevant Cargo Assets;

(ii) the legal or beneficial control and/or ownership of all or a portion of the Relevant Passenger Assets and/or its related cashflows, whether or not the Issuer or a Subsidiary of the Issuer continues to control the operation of such Relevant Passenger Assets;

(iii) there is any other restructuring or reorganization of the Issuer and its subsidiaries which involves a change to the composition of assets of the Issuer, including their legal or beneficial ownership, and their related cashflows.

Within three business days of the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a "**Put Event Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the Put Option contained in this Condition.

To exercise the Put Option, the Noteholder must deposit any applicable Note, together with each unmatured Coupon relating thereto (if any), to the account of any Agent for the account of the Issuer within the period (the "**Put Period**") of 45 days after the day on which the Put Event Notice is given, together with a duly signed and completed Put Option Notice in the form (for the time being current and substantially in the form set out in the Agency Agreement) obtainable from the specified office of any Agent.

Subject to the deposit of any such Notes to the account of an Agent for the account of the Issuer as described above, the Issuer shall redeem the Notes in respect of which the Put Option has been validly exercised as provided above on the date which is 30 Business Days following the end of the Put Period (the "**Optional Redemption Date**"). The Agent to whom a Note has been so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once so deposited with a duly completed Put Option Notice in accordance with this Condition 6, may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date, any such Note becomes immediately due and payable or, upon due presentation of any such Note on or prior to the end of the Put Period, payment of the redemption moneys is improperly withheld or refused on the relevant Optional Redemption Date, the relevant Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by an Agent in accordance with this Condition, the depositor of such Note and not such Agent shall be deemed to be the holder of the Note for all purposes.

(d) If the rating designations employed by the Rating Agency are changed from that which is described in the definitions of "Investment Grade" and "Rating Downgrade" above, or if a rating is assigned by another Rating Agency, the Issuer shall determine, with the agreement of the relevant Rating Agency, the rating designations which are most equivalent to the prior rating designations and this Condition 6 shall be construed accordingly.

(e) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled Redemption*) to (c) (*Redemption at the option of the Noteholder following a put event*) above.

(f) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith.

(g) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

7. **Payments**

(a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.

(b) *Interest*: Payments of interest shall, subject to paragraph (g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.

(c) *Interpretation*: In these Conditions:

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

and

"**TARGET System**" means the TARGET2 system.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deduction for unmatured Coupons*: If a Note is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

(f) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.

(g) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(h) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

8. Taxation

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Czech Republic or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with Czech Republic other than the mere holding of the Note or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union; or

(d) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 (*Taxation*).

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Czech Republic, references in these Conditions to the Czech Republic shall be construed as references to the Czech Republic and/or such other jurisdiction.

9. Events of Default

If any of the following events occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof (unless its failure to pay is caused by an administrative or technical error and the payment is made within 3 business days) or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer or Subsidiary*:

(i) any Indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds EUR 15,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of an amount, individually or in the aggregate, exceeding EUR 15,000,000 is rendered against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party (i) takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries or (ii) otherwise enforces any Security Interest over the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries; or

(f) *Insolvency, etc*: (i) the Issuer or any of its Material Subsidiaries becomes over indebted or is unable to pay its debts as they fall due, (ii) any corporate action, legal proceedings or other procedure or step is taken in relation to: (1) the suspension of payments or a moratorium of any Indebtedness; (2) bankruptcy (*úpadek*) or discharge (*oddlužení*) of the Issuer or any of its Material Subsidiaries; or (3) a reorganization (*reorganizace*) or a similar arrangement with any creditor of the Issuer or any of its Material Subsidiaries unless the petition to commence such proceedings or procedure is discharged, stayed or dismissed within 30 days of such commencement; (iii) an administrator, receiver, administrative receiver, compulsory manager, liquidator or other similar officer of the Issuer or any of its Material Subsidiaries or the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries is appointed, (iv) the Issuer or any of its Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (v) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) *Winding up, etc*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst the Issuer or such Material Subsidiary remains solvent); or

(h) *Analogous event*: any event occurs which under the laws of the Czech Republic has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or

(i) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes, or

(j) *Government intervention*: (i) all or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer or any of its Subsidiaries is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues;

then Noteholders holding not less than one-quarter of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

10. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

11. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes Coupons must be surrendered before replacements will be issued.

12. Paying Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain (a) a fiscal agent, (b) a paying agent in Luxembourg and (c), a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC;

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. Meetings of Noteholders; Modification

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error and it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

15. Notices

Notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and/or the Luxembourg Stock Exchange's website, www.bourse.lu, or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

16. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Process agent*: The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(e) *Consent to enforcement etc.*: The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(f) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in new global note ("**NGN**") form. On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility - that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of EUR100,000 and higher integral multiples of EUR1,000, up to and including EUR199,000 each at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Events of Default*) occurs.

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of EUR100,000 and higher integral multiples of EUR1,000, notwithstanding that no Definitive Notes will be issued with a denomination above EUR199,000.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant dated 24 June 2011 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the

Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note "**business day**" means any day on which the TARGET System is open.

Exercise of put option: In order to exercise the option contained in Condition 6(c) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to EUR 297,837,000 after deduction of expenses incurred in connection with the issue of the Notes, will be used by the Issuer to finance a portion of its capital investment plan, including primarily purchase and modernisation of rolling stock.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables set out selected consolidated financial information relating to the Group. All information has been extracted from the audited consolidated financial statements of ČD for the years ended 31 December 2010 and 31 December 2009. The audited consolidated financial statements of ČD for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 have been prepared in accordance with IFRS. The Group's statutory auditor is Deloitte Audit s.r.o.

SELECTED CONSOLIDATED INCOME STATEMENT ITEMS

	Year ended 31 December		
	2010	**2009**	**2008**
		(CZK thousands)	
Revenues from principal operations	37,795,523	37,115,833	37,700,527
EBITDA [(1)]	4,564,236	3,983,739	-449,462
Depreciation and amortisation	-5,677,323	-6,701,942	-6,867,760
Financial expenses	-358,920	-357,756	-460,744
Share of income of associates	4,350	4,325	4,426
Net profit (loss) for the period	-940,047	-2,566,621	-6,243,796

SELECTED CONSOLIDATED BALANCE SHEET ITEMS

	As at 31 December		
	2010	**2009**	**2008**
		(CZK thousands)	
Property, plant and equipment	65,344,832	59,274,154	56,154,620
Investment property	2,100,440	2,204,523	2,271,001
Intangible assets	607,538	729,124	800,394
Other long-term assets	938,144	899,160	698,775
Non-current assets	**68,990,954**	**63,106,961**	**59,924,790**
Inventories	1,330,580	1,279,736	1,273,837
Trade receivables	3,484,872	3,760,040	5,264,167
Cash and cash equivalents	719,461	2,333,396	4,805,833
Other short-term assets	1,267,705	2,187,269	1,181,740
Current assets	**6,802,618**	**9,560,441**	**12,525,577**
TOTAL ASSETS	**75,793,572**	**72,667,402**	**72,450,367**
Share Capital	20,000,000	20,000,000	20,000,000
Reserve and other funds	16,567,630	16,008,086	15,456,667
Retained earnings	4,481,361	5,428,568	8,193,239
Non-controlling interest	840,081	1,294,634	1,258,578
Equity	**41,889,072**	**42,731,288**	**44,908,484**
Loans and borrowings	12,467,085	11,681,990	9,059,413
Provisions	537,467	573,437	370,644
Other long-term liabilities	1,408,370	2,259,132	1,965,107
Long-term liabilities	**14,412,922**	**14 ,514,559**	**11,395,164**
Trade payables	8,133,517	8,307,417	8,116,944
Loans and borrowings	6,044,566	1,985,773	2,445,235
Provisions	813,862	337,781	402,293
Other short-term liabilities	4,499,633	4,790,584	5,182,247
Short-term liabilities	19,491,578	15,421,555	16,146,719
TOTAL LIABILITIES & EQUITY	75,793,572	72,667,402	72,450,367

OPERATING INFORMATION

	2010	2009	Difference	2010/2009
				(per cent.)
Passenger transportation				
Number of travellers (millions)	163	163	0	100.0
Transportation performance (millions of passenger-kilometres)	6, 553	6, 462	91	101.4
Traffic performance (millions of train-kilometres)	122.1	125.2	-3,1	97.5
Average transportation distance (kilometres)	40	40	0	100.0
Utilisation of the offered capacity (per cent.)	23	22	1	104.5
Freight transport				
Transportation volume (millions of tonnes)	76.72	68.37	8.35	112.2
Transportation performance (millions of tariff tonne-kilometres)	13,592	12,581	1,011	108.0
Traffic performance (millions of train-kilometres)	25.9	26.1	-0.2	99.2
Average transportation distance (kilometres)	177	184	-7	96.2

(1) The Group defines EBITDA as profit (loss) before interest, tax, depreciation and amortisation. EBITDA is not a measure of financial performance presented in accordance with IFRS. Accordingly, it should not be considered as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. EBITDA is computed as follows:

	Year ended 31 December		
	2010	**2009**	**2008**
		(CZK thousands)	
Profit (loss) before interest and tax	-1,113,087	-2,718,203	-7,317,222
Depreciation and amortisation	-5,677,323	-6,701,942	-6,867,760
EBITDA	4,564,236	3,983,739	-449,462

DESCRIPTION OF THE ISSUER

GENERAL INFORMATION

Incorporation and Registration

After passing of the Act on the Joint Stock Company Czech Railways (77/2002 Coll.), which amended the Railways Act (266/1994 Coll.), as amended, and the State Enterprise Act (77/1997 Coll.), as amended (the "**Act on Czech Railways**"), ČD was incorporated and recorded in the Commercial Register on 1 January 2003**.**

ČD is a stock corporation, incorporated and operating under Czech law, with its registered office at Nábřeží L. Svobody 1222, 110 15 Prague 1, Czech Republic. The telephone number of ČD's registered office is +420 972 111 111. ČD is registered, with the identification number 70994226, in the Commercial Register maintained by the Municipal Court in Prague under Section B, Insert 8039.

Shareholder

The founder and sole shareholder of ČD is the Czech Republic represented by the Ministry of Transport.

Share Capital and Dividends

The registered share capital of ČD is CZK 20 billion divided into 20 shares with a nominal value of CZK 1 billion each. All shares have been issued and are fully paid.

No dividends have been declared nor paid since ČD's incorporation. The Articles of Association of ČD do not allow for issuing preferred stock.

ČD benefits from dividends paid by each of its subsidiaries, **provided that** the subsidiary has generated positive income. The framework dividend policy of the Group stipulates that at least 50 per cent. of the funds made available for dividends are to be paid to ČD. The dividends received by ČD (on an unconsolidated basis) amounted to CZK 67,686 thousand in 2010 and CZK 62,193 thousand in 2009 according to IFRS.

Overview of the Group

The Group is the largest Czech passenger railway transport operator in the Czech Republic, carrying approximately 99.4 per cent. of passenger rail transportation as measured in passenger kilometres in 2009 and 88.8 per cent. of freight rail transportation in the Czech Republic as measured by market share in 2009. According to the preliminary figures from the Ministry of Transport, the Group carried approximately 99.4 per cent. of passenger rail transportation as measured in passenger kilometres in 2010 and 92.6 per cent. of freight rail transportation in the Czech Republic as measured by market share in 2010.

ČD conducts its operations on the railway network, which is currently ranked the fourth largest railway network within the EU and Switzerland as measured by the volume of transportation. According to the volume of passenger transport, the Group ranks among the ten largest railway companies in the EU, providing a transportation link between Eastern and Western Europe. The Group provides freight transportation through its 100 per cent. owned subsidiary ČD Cargo which is ranked the fourth largest freight transporter within the EU and Switzerland as measured by tonnes carried in 2010 as compared to the fifth largest in 2009.

The Group is a transportation enterprise which operates passenger and freight railway transport, including the provision of:

- regional, domestic and long distance international passenger transport services;
- comprehensive freight transportation services across Europe;
- railroad operation services to SŽDC;
- telematic services to railway transportation companies and railway infrastructure administrators;

- repair services for rolling stock;
- testing services, railway transportation research and development; and
- railway catering services.

ČD and SŽDC were established as part of the restructuring of the state organization Czech Railways. ČD assumed assets used to operate railway transportation and ensure serviceability of railway routes while SŽDC took over management of the railway infrastructure and represents the State as railway owner. Since 1 December 2007, ČD has focused on operating railway passenger transportation and ČD Cargo has taken over the operation of railway freight transportation.

Under current regulations, the owner of the majority of railway lines in the Czech Republic is the State, represented by SŽDC. SŽDC owns the Czech rail network infrastructure and is 100 per cent. owned by the Czech Republic. SŽDC is responsible for the operability, modernisation and development of the railway system within the Czech Republic.

SŽDC's main objectives include:

- providing operation of the railway infrastructure and ensuring its operability;
- providing maintenance and repair of the railway infrastructure;
- providing development and modernisation of the railway infrastructure;
- preparing materials for arranging commitments of public service; and
- controlling of the railway infrastructure use, rail operation and operability.

In December 2007, as part of the restructuring of ČD, ČD Cargo was formed as an independent joint stock company and 100 per cent. owned subsidiary of ČD. ČD Cargo operates ČD's freight transportation business. The need to form a stand-alone joint stock company resulted from the drive to increase the transparency of internal processes within the ČD Group and to increase the competitiveness of freight transportation in the liberalised European transportation market. ČD Cargo offers transport of a wide range of freight classes: iron and machine industry products, construction materials, chemical products and liquid fuels, wood and paper industry products, foods and farming products, coal, automotive and other commodities (rail vehicles on self-contained wheels, glass and ceramics, cargo and business vehicles, explosives, different consumer products, textile products and materials, shoes, refuse, etc).

As of 1 July 2008, ČD formally transferred the role of infrastructure manager to SŽDC. This involved transferring approximately 10,000 employees and movable and immovable assets worth approximately CZK 12 billion. As of 1 July 2011, all traffic control activities are to be transferred from ČD to SŽDC as part of the asset restructuring strategy.

SOLE SHAREHOLDER AND RELATIONSHIP WITH THE STATE

The State's shareholder role

The Government exercises its rights as a shareholder by means of the Steering Committee (the "**Steering Committee**"), which comprises three members from the Ministry of Transport, and one member of each of, the Ministry of Finance, the Ministry of Defence, the Ministry of Industry and Trade, and the Ministry for Regional Development, each of whom acts in accordance with a written government authorisation. All key strategic decisions require the approval of the Steering Committee.

The State's support up to date

The Government has supported ČD in the past through a one-off subsidy (pursuant to decree no. 686, the Government secured proceeds from the budget amounting to CZK 3.2 billion that were used to partially cover compensations in relation to passenger transport in 2009), and by guaranteeing loans provided by EUROFIMA for financing the purchase of rail vehicles. In addition the Government provided a guarantee to support a EUR 92.065 million syndicated amortising loan facility in 1996 with the final maturity in November 2014.

The State guarantees provided to facilitate EUROFIMA loans were as follows:

	State guarantee to EUROFIMA loan maturity 10 yrs, bullet repayment
	(EUR millions)
provided in 2003	15
provided in 2004	25
provided in 2004	20
provided in 2005	45
provided in 2006	30
provided in 2007	30
Total	**165**

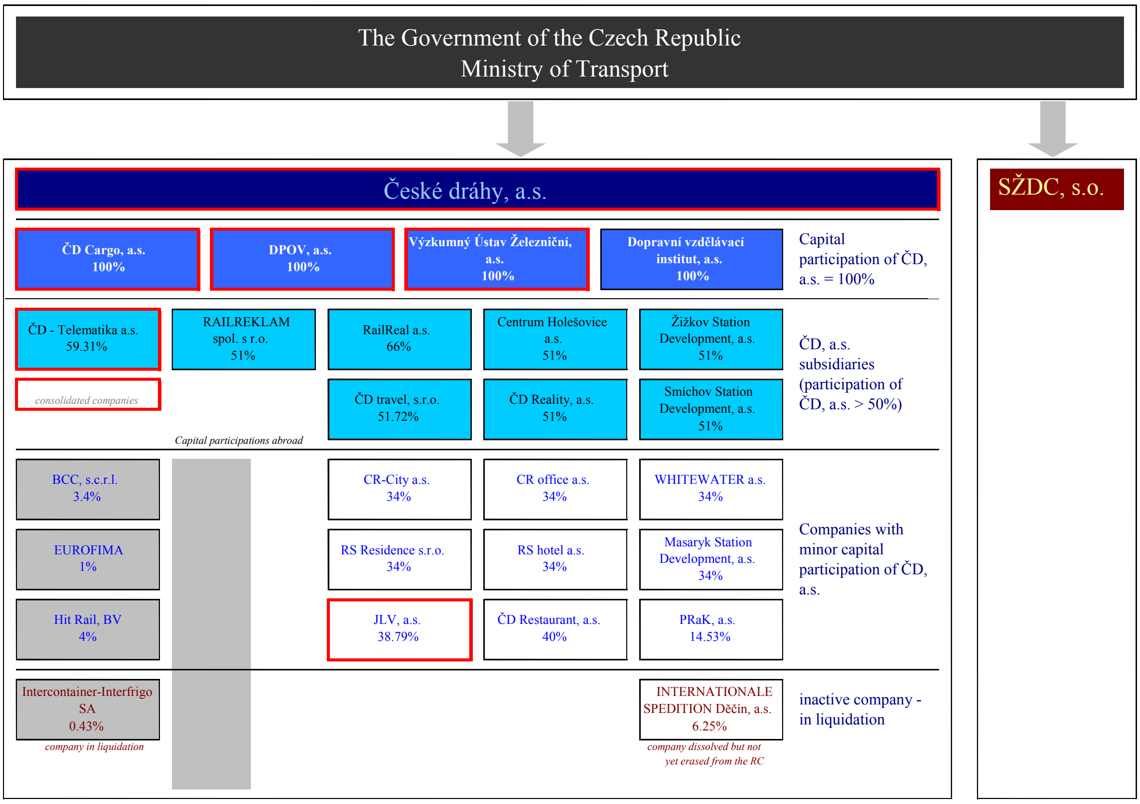
Other forms of financial support has been provided pursuant to Government resolution no. 1132/2009 and the related Memorandum on Ensuring Stable Financing in the Regional Railway Passenger Transport, which provide for compensation to the Czech regions, including the city of Prague, in relation to regional passenger transportation until 2019 (please see *"Pricing, Compensations and Tariff regulation"* below for more details).

The Group's Corporate Structure

The Group comprises 26 subsidiaries, of which ČD holds majority stakes in 12 companies. The companies that are consolidated in the financial statements of ČD comprise ČD, ČD Cargo , ČD – Telematika a.s. (**"ČD Telematika"**), DPOV a.s. (**"DPOV"**), Výzkumný Ústav Železniční, a.s. (**"VÚŽ"**) and JLV, a.s. (**"JLV"**) (together, the "**Consolidated Group**"). In 2010 ČD alone generated 63 per cent. of the Consolidated Group's revenues.

The other companies are not consolidated in the financial statements of ČD as they were determined by ČD not to be of material importance to the Group according to total assets, revenues and equity. No shares of any of the companies within the Group are publicly tradable on any public markets.

Overview of the current organisational structure



The following table contains an overview of ČD subsidiaries that are part of the Consolidated Group as of the date of this prospectus. The unconsolidated and unaudited figures below have been extracted from data provided by those ČD subsidiaries for purposes of preparation of the audited financial statements of ČD as at, and for the years ended, 31 December 2010 and 31 December 2009. The data concerning the ČD subsidiaries that are part of the Consolidated Group (other that JLV) have been prepared in accordance with IFRS. The data concerning JLV has been prepared in accordance with Czech GAAP.

Subsidiary	**Description**
ČD Cargo	ČD shareholding 100 per cent. As at, or for the year ended, 31 December 2010 revenues amounted to CZK 14,322 million (compared to 13,078 million in 2009), EBIT CZK -661 million (compared to -1,589 million in 2009), and total assets of CZK 17,426 million (compared to 17,734 million in 2009). ČD Cargo provides freight transport services with main deliveries coming from industrial and agricultural products, raw materials, fuels, goods, containers and oversized loads. It also rents freight cars, railway siding and provides for other transportation services.
DPOV.	ČD shareholding 100 per cent. As at, or for the year ended, 31 December 2010 revenues amounted to CZK 1,195 million (compared to 1,074 million in 2009), EBIT CZK 54 million (compared to 47 million in 2009), and total assets of CZK 897 million (compared to 724 million in 2009). DPOV provides rolling stock repair services. Besides the Group companies, the customers of DPOV, a.s. include foreign railway companies, predominantly from Germany and Poland.
VÚŽ	ČD shareholding 100 per cent. As at, or for the year ended, 31 December 2010 revenues amounted to CZK 243 million (compared to 249 million in 2009), EBIT CZK 76 million (compared to 88 million in 2009), and total assets of CZK 608 million (compared to 564 million in 2009). VÚŽ provides special testing services with the main activities being certification and compliance-assessment of products and quality systems with a special focus on products and sub-systems for the interoperability of the railway system. VÚŽ assesses conformity of defined products, including rolling stock, infrastructure, control command, signalling and energy, with European technical requirements. ČD has determined that VÚŽ represents a non-strategic asset and may therefore be sold in future.

ČD Telematika	ČD shareholding 59.31 per cent. Nyland Holding B.V., another major shareholder unrelated to ČD, holds 22.08 per cent. As at, or for the year ended, 31 December 2010 revenues amounted to CZK 1,496 million (compared to CZK 1,561 million in 2009), EBIT CZK 38 million (compared to CZK 14 million in 2009), and total assets of CZK 2,831 million (compared to CZK 2,636 million in 2009). ČD Telematika provides for telecommunication (internet, data, voice and other supplementary services) and IT services (applications for passenger and freight rail transportation and administration of railway infrastructure, SAP and other ERP applications) and it also operates the second largest telecommunication infrastructure in the Czech Republic enabling ČD Telematika to offer services in relation to data access points, central data storage and server farms. Besides the Group, which is the most significant customer, ČD Telematika provides its services to other customers including major telecom operators
JLV	ČD shareholding 38.79 per cent. (consolidated at the discretion of ČD management as it is deemed to be material) As at, or for the year ended, 31 December 2010 revenues amounted to CZK 237 million (as compared to CZK 257 million in 2009), and total assets of 378 million (as compared to CZK 367 million in 2009), in each case in accordance with Czech GAAP. JLV offers accommodation and catering services in railway passenger transportation. Other services provided by JLV also include operation of restaurants, bars, coffee shops and food stores.

Reorganisation Effort

The Government has decided to restructure the Group pursuant to its resolution dated 25 July 2007 approving the document "Restructuring of joint stock company ČD and SŽDC". The most recent step in such restructuring includes the transfer of employees to SŽDC pursuant to Government resolution dated 9 February 2011.The Group may undertake further restructuring activities based on the former Government resolution (please see *"Expected Sale of Property"* below for more detail on currently envisaged sale of properties).

THE RAILWAY NETWORK

The railway network in the Czech Republic

SŽDC operates the national and regional railway network (consisting of 9,478 kilometres of railway lines as at 31 December 2009 as compared to 9,578 kilometres of railway lines in the Czech Republic) and is responsible for its operation, modernisation and development. As at 31 December 2010 ČD serviced 9,412 kilometres of railway lines on a contractual basis. This contractual relationship is expected to terminate on 30 June 2011. ČD received reimbursement of CZK 5.194 billion in 2010 for the provision of such services (please see *"Expected Sale of Property"* below for more details).

Pursuant to the Railway Act No. 266/1994 Coll., as amended (the **"Railway Act"**) and the Network Statement on National and Regional Rail issued by SŽDC, SŽDC allows carriers to access the railway network, subject to the fulfilment of certain conditions. SŽDC provides carriers with railway routes for use, i.e. allocates the route capacity for the regulated price which is set pursuant to the price decree of the Ministry of Finance for a particular year and a declaration issued by SŽDC pursuant to the Railway Act and published in the Transport and Tariff Bulletin of the Czech Republic.

The Group operates its transport business on the majority of the current railway lines in the Czech Republic.

The map below illustrates current and planned railway routes:

KEY STRENGTHS

The Group

The Group believes that it benefits from the following key strengths:

- well-diversified operations with ČD Cargo's revenues correlating to the industrial activity of the Czech economy;
- the location of the Czech Republic in the centre of Europe facilitates pan-European transport, serving as a link between Eastern and Western Europe;
- ČD has a dominant position for the provision of railway passenger transportation within the Czech Republic and is in possession of decisive know-how and assets for the provision of a complex rail transport service;
- ČD holds long-term contracts for railway passenger transport operation (please see *"Material Contracts"* below for more details);
- the Group's network is one of the most dense in Europe enabling it to compete effectively with road transport; and
- labour costs in the Czech Republic are lower than in some neighbouring countries.

Passenger Rail Transport

ČD's provision of passenger rail transport benefits from the following advantages:

- ČD's passenger operations are governed mainly by long term operating contracts entered into with the Czech Republic and the Czech regions, including the city of Prague, (please see *"Material Contracts"* below for more details), which facilitate the quasi-monopoly status of ČD; and
- recent restructuring efforts resulted in a decreased costs base and a more efficient structure arising from redundancy and ongoing cost reduction programmes.

Freight Rail Transport

ČD Cargo enjoys the dominant market share in freight rail transport mainly due to the following advantages:

- ČD Cargo benefits from strong long term relationships with its customers;
- ČD Cargo's customer base and end-markets are well-diversified thus mitigating the risks associated with reliance on a limited number of customers or product categories;
- ČD Cargo, as the national freight operator, faces little competition in its transit, import and export activities and can offer to transport entire train consignments, which represents an advantage over road transportation; ČD Cargo's market share is as follows:

Tonne km (without empty rolling stock of carriers)	Freight rail transportation in 2010 (without empty rolling stock of carriers) Share of ČD Cargo (per cent.)
local	85.2
import	84.8
transit	84.2
export	88.0
sum	85.8

Source: ČD Cargo Data and Czech Statistical Office

- certain fees for access to the rail network by rail freight operators have been decreased and road toll has been increased with effect from 2011.

BUSINESS STRATEGY

The Group

The Group aims to maintain its dominant position in the market both in the passenger and freight segments. In addition to concrete steps to be implemented by the passenger and freight units as outlined below, the management also intends to complete the Group's restructuring that is aimed at further enhancing the Group's efficiency.

Passenger Rail Transport

ČD's strategy in the passenger transportation area includes implementation of the following steps:

- an investment plan aimed at increasing the quality of ČD's service in the field of rolling stock and services for customers at stations and on-board (please see *"Investment Plan"* below for more details);
- strategic reporting of key performance indicators influencing the operation and economy of passenger transport;
- higher train utilisation; in the Commercial segment, more modern high speed trains are to be introduced to support the existing Pendolino units on the most attractive long-distance routes. The commercial segment is to focus on routes with strong traffic flows (whether currently or expected) to increase train utilisation;
- streamlining to remove the least efficient routes;
- a long-term maintenance plan for new vehicles;
- streamlining of depot processes; and
- improvement of connections to better align with bus schedules.

Freight Rail Transport

ČD Cargo aims to provide a fully integrated service that provides a "door to door" offering, including offering logistic activities that benefit from higher margins than the pure transportation segment, such as storage, carriage and other related value-added logistic services, comprehensive material flow solutions including analysis and development of logistic operations. ČD Cargo is also seeking to form an alliance with a logistics company to increase the range, and enhance the complexity, of its services. ČD Cargo is seeking to provide integrated transportation services from Western Europe to Eastern Europe, Russia and Central Asia through forming an alliance with neighbouring foreign companies to create a large central European player in the freight segment.

In order to increase demand for ČD Cargo's services, ČD Cargo is looking to invest in infrastructure to support linkages between industrial areas with railway transport by building combined transport terminals and logistics centres. For example the combined transport terminal and logistics centre in Lovosice, located on the main rail corridor from the port of Hamburg, is operated by ČD Cargo and other similar locations are being assessed.

ČD Cargo aims to further increase efficiency and consolidate its operations over the next three years.

Investment Plan

ČD is preparing for the opening of the passenger transport market to competition by enhancing the quality of its trains and rolling stock to increase the competitiveness of the ČD offering. The investment plan is aimed at reaching and maintaining compliance with future technical norms that are likely to become more restrictive. This is expected to be financed through a mixture of internal and external funds including, among others, the proceeds of the issue of the Notes.

Passenger Rail Transport

According to the current investment plan prepared in accordance with Czech GAAP and approved by the Supervisory Board on 23 February 2011, ČD has budgeted to invest approximately CZK 9 billion (approximately EUR 367 million) per annum on average between 2011 and 2013. The actual amount invested may, however, differ materially from the amount budgeted (please see *"Important Notice"* above for more details).

Regional

In terms of regional passenger transport, a number of new trains of ČD are expected to commence operation in the next three years. The trains are to be partially funded by the regional operating funds' subsidies provided by the EU under the Regional Operating Programmes. 11 projects were approved and four projects remain outstanding in the approval process as at 31 December 2010. As of the date of this prospectus, 15 projects for the modernisation of rolling stock were approved and a further three are in the approval process. On the basis of these projects, ČD may acquire up to 90 units. Subject to the fulfilment of the conditions of the Regional Operating Programmes, the total amount of subsidy available to ČD from the Regional Operating Programmes is expected to be up to CZK 2.9 billion in total during the period from 2011 to 2014.

On 14 July 2010, the European Investment Bank ("**EIB**") approved financing to ČD of up to CZK 4 billion, which is to be used for financing the purchase of new train-sets to be utilised on selected lines of the regional railway network. According to the information published by EIB, the total cost of this project is expected to be CZK 8.57 billion and is expected to be co-financed in part from the Regional Operation Programmes. Nevertheless, it cannot be ruled out that the amount of the financing and the total cost of the project will be materially lower than the above mentioned amounts.

Long distance

ČD is planning to modernise its portfolio of existing vehicles by 2014 in order to decrease the average age of the towed passenger train units from around 29 years to 21 years by 2014. The modernisation programme started in 2010 when ČD concluded contracts for the modernisation of existing units with five suppliers. Funding will be sourced from various financing instruments, including leases, bank loans and bonds. The programme is focused on long distance and commercial passenger transport.

Due to increased requirements on the quality of passenger transport services, which are also expected to be underpinned by agreements coming out of the gradual opening of the long distance market, ČD is preparing for the competitive tenders through an investment plan.

Commercial

ČD is planning the introduction of a number of new modern high speed trains (without locomotives) to serve on the key domestic and international routes and are anticipated to cost approximately CZK 5 billion. It is expected that the modern high speed trains (without locomotives) will commence operation between 2012 and 2014. The trains are expected to allow for substantial improvement in the quality of ČD service.

ČD has also concluded a contract for twenty Škoda Transportation multisystem electric class 380 locomotives in the amount of CZK 2,676 million, some of which have been in pilot testing since 2010.

Freight Rail Transport

According to the current investment plan for 2011 approved by the Supervisory Board of ČD Cargo on 26 January 2011 and the current mid-term investment plan included in a business forecast approved by the Board of Directors of ČD Cargo on 1 March 2011, in each case prepared in accordance with IFRS principles, ČD Cargo has budgeted to invest approximately CZK 3.5 billion per annum on average between 2011 to 2013. The actual amount invested may differ materially from the amount budgeted (please see *"Important Notice"* above for more details**).**

ČD Cargo follows the strategy of acquiring new units and modernising existing units while increasing their versatility for use in relation to international freight transport. As a result almost 90 per cent. of the planned volume of investments will cover acquisition, reconstruction and modernisation of freight cars and locomotives.

ČD Cargo entered into contracts concerning the delivery to ČD Cargo of thirty modernised locomotives of the 363 type during 2011 to 2013.

Risk Management

The principal activities of the Risk Management department are as follows: prove the risk monitoring and evaluation processes by introducing a systemic approach to identifying, analysing, measuring, managing, monitoring, reporting, consolidating and communicating all significant business risks using one unified, integrated system. The key objective of the risk management system is to limit the adverse impact of risks on the financial results of the Group, i.e. to minimise the impacts of unutilised opportunities on revenues and to minimise impacts on costs.

In accordance with the approved ČD Risk Management Policy, ČD's Risk Management Committee was established to fulfil an important management role under the risk management system and to fulfil the function as a permanent advisory body to the Board of Directors. Across the Group, unified risk categorisation is applied and continuous monitoring of significant risks in all major categories is carried out to allow the ČD's management to be informed on a timely basis of the current state of affairs in the area of risk management.

Liquidity risk

Short- and mid-term cash flow monitoring is a key tool for managing liquidity risks. Analysis of liquidity matters are prepared, at least, on a weekly basis with the results forming the basis of decisions relating to meeting the Group's liabilities and drawing down available credit lines.

The Group has a number of credit lines available from its relationship banks, namely revolving senior facilities that are allocated among members of the Group. To facilitate long-term investment needs, the Group uses a combination of equity, proceeds from the sale of tangible assets and external long-term sources. The Group also makes use of financing available from EUROFIMA for the purchase of rolling stock for passenger transportation. Ancillary external sources of funding are also used for modernisation of locomotives or rolling stock including financial leasing contracts (please see *"Risk Factors Related to the Group's Business – Business Risks – The Group is exposed to liquidity risk"* above for more details).

Interest rate risk

The Group monitors its exposure to floating interest rates arising mainly from external financing and aims to mitigate the risk by entering into financing structures with fixed interest rates or by concluding appropriate interest rate hedging transactions (please see *"Risk Factors Related to the Group's Business – Business Risks – The Group is exposed to interest rate risk"* above for more details).

Foreign currency exchange rate risk

The Group is exposed to foreign currency exchange rate risks. The Group monitors its exposure and aims to mitigate foreign currency exchange rate risks predominantly by natural hedging, i.e. using revenues (in the particular currency) to reimburse costs incurred in such currency.

The currencies giving rise to foreign currency exchange rate risk are primarily the Euro arising from ČD Cargo operations. The management of ČD Cargo mitigates this risk by utilising a wide range of short- and mid-term financial hedging instruments (please see *"Risk Factors Related to the Group's Business – Business Risks – The Group is exposed to foreign currency rate risk"* above for more details).

Credit risk

To measure credit risk, the Group calculates the net (uncollateralised) exposure to individual counterparties. Credit risk management in the Group is based on the following system of limits and restrictions: limits relating to the customers, suppliers, financial institutions, and to the concentration of risk exposure to the individual financial institutions. To reduce the net exposure, ČD uses bank guarantees from the authorised financial institutions.

The Group appoints external legal counsel to claim bad debts. In extraordinary cases, some of those bad debts are sold to third parties (please see *"Risk Factors Related to the Group's Business – Business Risks – The Group is exposed to credit risk"* above for more details).

ROLLING STOCK

Passenger Rail Transport

As a result of its investment plan, ČD aims to bring down the average age of its fleet (as measured since the date of production) to 21 years by 2014.

Traction vehicles

As of 31 December 2010 ČD owned 2,089 traction vehicles with the average age of the Group's traction vehicles being 29 years since the date of production and 23 years since the date of last modernisation.

The table below shows the aging structure of traction vehicles as of 31 December 2010:

	Number of Traction vehicles for passenger transport				
		Inventory count by aging structure			
Traction vehicles	**Total**	**0-10 years**	**11-20 years**	**21-30 years**	**older**
Trailers of electric and diesel sets	**315**	108	11	0	196
Electric locomotives	**348**	0	83	155	110
Electric train sets	**252**	89	9	0	154
Diesel locomotives	**300**	8	93	28	171
Diesel railcars and sets*	**671**	238	68	175	190
Control cars	**203**	198	5	0	0
Total traction vehicles	**2,089**	641	269	358	821

* unit is reported as a single piece.

Towed passenger train units

As of 31 December 2010 ČD owned 3,225 train units with the average age being 32 years since the date of production and 30 years since the date of last modernisation.

The table below shows the aging structure of towed passenger train units as of 31 December 2010:

	Number of passenger train units				
	Inventory count by aging structure				
Passenger train units	**Total**	**0-10 years**	**11-20 years**	**21-30 years**	**Older**
Sleeping and restaurant units	**114**	12	10	57	35
International transport units	**650**	56	9	427	158
Four-axle units for domestic transportation	**1,392**	0	365	226	801
Trailer and individual control railcars	**847**	19	45	218	565
Other passenger units*	**222**	0	0	6	216
Total passenger units	**3,225**	87	429	934	1,775

* other passenger units include military, baggage, parlour and other.

Freight Rail Transport

Traction vehicles

The ČD Cargo's fleet consisted of 974 traction vehicles in 2010. The average age of ČD Cargo's fleet is 34 years (40 years for electric locomotives and 28 years for diesel locomotives).

The table below shows the aging structure of traction vehicles as of 31 December 2010:

	Number of Traction vehicles for passenger transport				
	Inventory count by aging structure				
Traction vehicles	**Total**	**0-10 years**	**11-20 years**	**21-30 years**	**older**
Electric locomotives	**479**	0	9	205	265
Diesel locomotives	**495**	35	74	348	38
Total traction vehicles	**974**	35	83	553	303

Towed freight train units

As of 31 December 2010 ČD Cargo possessed 27,416 thousand freight train units. The average age of ČD Cargo's freight train units is 23 years.

The table below shows the aging structure of towed freight train units as of 31 December 2010:

	Number of cargo train units				
	Inventory count by aging structure				
Cargo train units	**Total**	**0-10 years**	**11-20 years**	**21-30 years**	**Older**
Cargo train units	**27,416**	985	1,151	17,965	7,315

PROPERTY

Overview of the ČD's Property

As of 31 December 2010, ČD owned 7,463 buildings, of which 1,243 were railway station buildings, 985 were rolling stock depot buildings, 3,695 were apartments and the remaining buildings included, among others, blocks of flats, stores, building for employees, garages and hostels. The crucial element affecting passengers' comfort is quality of railway stations and therefore, maintenance of those represents a material cost component.

Expected Sale of Property

The Group intends to streamline its asset base by selling non-core assets to SŽDC and to private investors.

Expected Sale of property to SŽDC

In its decrees No. 1352/2007 and No. 795/2008, the Government approved the sale of those ČD assets that are used in relation to railway network operations to SŽDC. As of the date of this prospectus the details of the sale have not yet been agreed and are subject to ongoing negotiations between ČD and SŽDC.

A contract for the sale of a part of the business between ČD and SŽDC was entered into as of 1 July 2008. As of the date of this prospectus 18 business units and a part of ČD's management function have been transferred to SŽDC pursuant to this contract for approximately CZK 12 billion. However, not all the assets related to SŽDC's activities have as yet been transferred.

It is expected that the remaining assets, which comprise land underneath rail roads in railway stations and buildings used for the purpose of ensuring railways operability, will be transferred as part of the sale. As of 30 June 2010, the net book value (as prepared in accordance with Czech GAAP) of the assets to be so transferred to SŽDC was approximately CZK 3 billion. While it can be reasonably expected that the sale price to be paid for these assets will be substantially in excess of their net book value, no assurance can be given that such higher sale price will actually be achieved.

Expected Sale of Property to Private Investors

Besides the sale of assets to SŽDC as outlined above, ČD is planning to sell some of its other non-core assets to private investors. The Supervisory Board approved a decree on 28 April 2011 for the preparation of a public tender for an advisor to assist with a sale of remaining inutile buildings (administration buildings, workshops, garages, warehouses) and inutile land predominantly surrounding the railway stations. The estimated market value of the buildings is CZK 1.6 billion and of the land CZK 5 to 7 billion, and the transactions are planned to be conducted on an arm's length basis. However, the actual market price is dependent on the market conditions prevailing at the time of sale.

Given the varying quality and attractiveness of the assets, the sale will be clustered in a number of packages each comprising of a combination of attractive and less attractive assets. The sale is expected to occur in several stages, in 2012 and 2013.

EMPLOYEES

The Group is one of the largest employers in the Czech Republic with the average headcount pro-rated to full-time employees equalling 38,046 in 2010. The Group has up to the date of this prospectus benefited from streamlining its operations without triggering any major industrial actions. Furthermore, the Group incurs lower costs associated with labour than many of its European peers.

The table below shows the annual average number of employees for the years 2007 to 2010:

Annual average number of employees (pro-rated to full-time employees)	**2010**	**2009**	**2008**	**2007**
The Group	38,046	41,081	48,592	56,672
ČD	26,992	28,569	34,685	53,549
ČD Cargo	9,573	10,378	11,394	11,807

Passenger Rail Transport

Pursuant to the Collective Agreement for 2011, ČD employees whose employment relationships have been terminated due to (i) the employee's redundancy as a result of ČD's decision to change the goals of ČD or to reduce the number of employees in order to increase work efficiency; (ii) closure or relocation of a part of ČD; or (iii) being certified as incapable of performing his/her work for a prolonged period as a consequence of a medical condition, are entitled under certain circumstances to severance pay amounting to up to 7 months' average salary (with certain limitations in the calculation of the average salary) in addition to the severance pay set out in the Labour Code (262/2006 Coll.), as amended (the "**Labour Code**").

During 2010, the average headcount pro-rated to full-time employees equalled 26,992, representing a decrease of 1,577 employees when compared to 2009. As of 31 December 2010, ČD had 26,000 employees, representing a decrease of 1,952 when compared to the same period in 2009 as a result of efficiency measures.

Other personnel costs, in accordance with IFRS, for the period from 1 January to 31 December 2010 amounted to CZK 511 million and included severance payments to employees as well as the costs of implementing the complementary social programme pursuant to the Government Decree No. 370/2007 Coll., on conditions, amount and method of provision of subsidy in order to solve consequences of restructuring of ČD and SŽDC. As of 31 December 2010, severance payments totaling CZK 329 million were made to 1,762 employees pursuant to the Collective Agreement for 2010, which goes beyond the requirements stipulated by the Labour Code.

The average monthly salary of ČD employees was CZK 27,319 in 2010 and CZK 27,071 in 2009. When taking into account the average consumer price index of 101.5 per cent., the average salary in the Group grew by 0.92 per cent. in nominal terms and decreased by 0.57 per cent. in real terms in 2010 when compared to 2009.

Pursuant to Government Resolution of 9 February 2011 in relation to transfer of remaining rail network activities from ČD to SŽDC, ČD is expected to transfer approximately 9,500 employees to SŽDC on 1 July 2011.

Freight Rail Transport

The average registered headcount recalculated to full-time employees of ČD Cargo equalled 9,573 in 2010 and 10,378 during 2009. The reduction of staff is a result of streamlining initiatives aimed at enhancing ČD Cargo's competitiveness.

According to IFRS, employee benefit costs for the period from 1 January to 31 December 2010 were approximately CZK 4.67 billion. This compares to total employee benefit costs of CZK 4.89 billion for the same period in 2009.

The average monthly salary of ČD Cargo's employees was CZK 27,871 in 2010 and CZK 26,261 in 2009.

Pension plans

ČD is not required to, and does not provide a pension plan for its employees. Except for liabilities towards employees arising from the timing difference between expensing and paying for wages and salaries, the Group is not exposed to other material liabilities towards its current employees or employees having been with the Group in the past.

According to the Collective Agreement for 2011, ČD is to provide its employees with several other employee benefits (e.g. meal allowances, life and pension insurance) in the expected amount of approximately CZK 0.42 billion.

ENVIRONMENT, PROTECTION, HEALTH AND SAFETY

Passenger Rail Transport

ČD's Department of Quality Assurance and Environmental Protection under the Rolling Stock Division, is responsible for supervising and monitoring ČD's compliance with all relevant legislation. ČD promulgates internal policies which set out processes that aim at ensuring compliance with legislation or with the Group's internal policies and brings legislation changes or new legislation coming into effect to the attention of the Group's executive management.

In order to comply with environmental regulations ČD carries out, among others, the following measures:

- monitoring the aggregate volume of produced waste with a view to decreasing the production of waste and enhancing waste separation;
- providing for the re-collection of specific used products;
- administration of an authorised emission measuring system including measuring the combustion efficiency of stationary sources of air pollution;
- monitoring the quality of water;
- prevention of leakage of hazardous substances into the bedrock; and
- removing legacy environmental burdens and limiting their impact on the environment.

There is an environmental audit held annually by ČD that is aimed at individual environmental issues of ČD. Results of the audit are presented to local state administration authorities as underlying documentation.

Freight Rail Transport

On 27 May 2008 ČD and ČD Cargo entered into a cooperation agreement with respect to certain environmental matters with the emphasis on ČD Cargo's side, on the rolling stock repair units. The issues outlined in the agreement include among other things reduction of waste production, enhancing building insulation, prevention of diesel leakages to the soil and mitigation risks associated with ecological disasters.

ČD Cargo holds a certificate of environment management system indicating compliance with the code of conduct relating to environmental policy within the Czech Republic. It has been recently updated in terms of matters including enhanced waste recycling, reconstruction of a number of sewer systems and unification of processes undertaken in chemical laboratories.

LICENCES AND INSURANCE

Licences

A valid national licence must be obtained for the provision of railway transport pursuant to the Railway Act. To obtain such licence, certain prerequisite conditions must be met including, among others, professional capability, integrity and the operability of rail cars for conducting the railway business.

Passenger Rail Transport

As of the date of this prospectus, ČD holds all required licences for the provision of passenger transport in the Czech Republic, including a licence and a certification of the transport company (pursuant to the Railway Act) that is awarded depending on compliance of the operation and safety management systems with the Ministry of Transport regulation no. 376/2006 Coll. The licence has been awarded for an indefinite period of time and the certification is valid until 2013.

ČD also holds a European licence that would allow, subject to complying with other conditions set by the legislation of the respective Member State, for transport within the EU. The licence was granted by the Railway Office of the Czech Republic on 1 November 2003 for an indefinite term. The licence shall be amended upon any change of circumstances under which the licence was granted and which are stated in that licence (e.g. change in the ČD's Board of Directors or a change of railway transport volume). The licence can be revoked, among others, by the decision of the Railway Office of the Czech Republic.

Freight Rail Transport

As of the date of this prospectus, ČD Cargo holds all required licences for the provision of freight transport in the Czech Republic, including a licence and a certification of the transport company (pursuant to the Railway Act) that is awarded depending on compliance of the operation and safety management systems with the Ministry of Transport regulation no. 376/2006 Coll. The licence has been awarded for an indefinite period of time and the certification is valid until 2013.

To be eligible to provide freight transport in foreign countries, ČD Cargo needs to be awarded all licences and certifications as requested by the respective countries including ČD Cargo's drivers having passed all prerequisite exams. As of the date of this prospectus, ČD Cargo can provide freight transportation in Hungary, Poland, Slovakia and, to a limited extent, in Germany. For the time being, ČD Cargo does not plan to expand into other countries.

Insurance

Passenger Rail Transport

ČD maintains insurance contracts to cover those risks that ČD believes are usual in the transport business.

As of the date of this prospectus the Group does not maintain insurance in relation to train units' damages due to lower benefits of such insurance (insurance premia demanded by insurance companies are relatively high). ČD believes that this is usual business practise among other European rail transport operators.

ČD carries the following instance cover:

- third party liability insurance for long-distance and regional transport (natural disaster insurance included) for claims up to CZK 300 million for an individual incident, and an aggregate total of CZK 600 million in one year (this insurance carries an excess of CZK 3 million);

- third party liability insurance for its fleet of cars for claims up to CZK 70 million for each incident (there is no excess);

- car insurance coverage (CASCO insurance) for its fleet of cars with an age of up to three years (the total amount that may be claimed varies depending on the value of the car (there is an excess of 2 per cent. of the value of the claim, with a minimum excess of CZK 2,000); and

- liability insurance for members of its statutory bodies, members of its Supervisory Board and certain other persons up to a total amount of CZK 1 billion (with an excess of up to CZK 100,000 per incident).

Freight Rail Transport

ČD Cargo maintains insurance contracts in compliance with all applicable laws and regulations covering those risks that ČD believes are usual in the freight transport business.

ČD Cargo entered into contracts including third party liability insurance of a holder of railway vehicles in Europe except Germany (up to a liability cap of CZK 300 million per event), third party liability insurance arising from rail vehicle operations on national and regional lines (up to a liability cap of CZK 100 million), liability insurance of a holder of railway vehicles in Germany (up to a liability cap of EUR 20,452,000). The Group has not made material insurance claims under any of these policies.

CREDIT RATINGS

The Group has been assigned a long-term debt rating of Baa1 (negative) by Moody's and the Notes have been assigned a long-term debt rating of Baa1 (negative outlook) by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

BUSINESS OVERVIEW

Passenger Rail Transport

The provision of ČD's passenger rail transport covers regional, long-distance and commercial services with each of the activities varying in revenues and profitability. Compensation from the State budget totalled CZK 4,075 million in 2010 and CZK 3,997 million in 2009 and compensation from budgets of the 14 Czech regions, including the city of Prague, amounted to CZK 8,036 million in 2010 and CZK 8,364 million in 2009.

The segment analysis outlines main revenue and cost items attributable for respective activities:

	Passenger	Management of operations	Admin of assets	Freight transportation	Other	Elimination and reconciliation	Total
				(CZK millions)			
Revenue from principal operations							
Revenue from passenger transportation .	6,516	0	0	0	0	105	6,621
Revenue from securing railway routes.	0	5,194	0	0	0	0	5,194
Payments from orderers	12,111	0	0	0	0	0	12,111
Other	119	52	3	14,098	6	-408	13,870

	18,746	**5,246**	**3**	**14,098**	**6**	**-303**	**37,796**
Purchased consumables and services							
Traction costs.	-2,631	0	0	-1,893	0	41	-4,483
Payment for the use of the railway route ..	-1,398	0	0	-2,555	-16	-30	-3,999
Other purchased consumables and services....	-6,205	-278	-689	-4,043	-2,481	4,708	-8,988
	-10,234	**-278**	**-689**	**-8,491**	**-2,497**	**4,719**	**-17,470**
Staff costs							
Payroll costs...	-5,347	-3,379	-241	-3,357	-1,274	494	-13,104
Social security and health insurance........	-1,712	-1,091	-73	-1,082	-398	83	-4,273
Statutory social costs...............	-35	-47	-2	-201	-41	-394	-720
Statutory social costs – benefits arising from the collective agreement.......	-232	-149	-7	-8	-25	177	-244
	-7,326	**-4,666**	**-323**	**-4,648**	**-1,738**	**360**	**-18,341**

Regional

Overview

Regional lines represent approximately 67 per cent. of total passenger services as measured by train kilometres and are ordered by all 14 Czech regions including the city of Prague. Revenues are generated from tickets sales and from compensation received from the 14 Czech regions including the city of Prague. The main purpose of the regional lines is to serve local communities at regulated prices. Due to the high density of the network and the low occupancy rates, regional rail transport is dependent on the compensation received. Passenger transport is provided by ČD on the basis of long-term contracts concluded with all of 14 Czech regions, including the city of Prague, which specify remuneration to be provided for the public service obligation carried out by ČD (please see *"Pricing, Compensation and Tariff Regulation – Passenger Rail Transport – Regional - Overview"* and *"Material Contracts"* below for more details).

Market

ČD develops its business through providing various discounts to its customers. ČD also aims to attract more passengers to suburban train services at the expense of individual car transport (especially in the city of Prague and the Středočeský region) as regional rail transport, as supplemented by regional buses, is envisaged by the Government to be the backbone of regional transport.

Current Czech laws provide for liberalisation of the railway market. However, in practical terms, as of the date of this prospectus, ČD has a monopoly position in the passenger railway transport market, except for small regional rail haulers:

- Viamont a.s. operates five lines in the Karlovarský and Královehradecký regions, including the Karlovy Vary - Mariánské Lázně line and the Sokolov – Kraslice line.
- Veolia Transport operates the Šumperk - Kouty nad Desnou line.
- Railtrans s.r.o. operates the Liberec – Zittau line.
- Jindřichohradecká mistni dráha operates two lines – Jindřichův Hradec – Nová Bystřice and Jindřichův Hradec – Obrataň.

Long-Distance (domestic and international)

Overview

Long-distance passenger rail transport represents approximately 31 per cent. of total passenger services provided by ČD in terms of train kilometres and is provided pursuant to the agreement entered into with the Czech Republic acting through the Ministry of Transport. As in the case of regional transport, passengers are incentivised to use ČD by various discounts offered by ČD. Pursuant to the agreement, ČD secures both domestic and international lines on the basis of the public service obligation until 2019. Revenues are generated from tickets sales and from compensation received from the Ministry of Transport. However, the long distance lines are less subsidised due to the lower density of the network and the higher occupancy rates.

Market

International operations are based on the Convention concerning International Carriage by Rail between national rail passenger transportation operators. This convention stipulates that a national carrier operates the route within the borders of the relevant country. Although proceeds from ticket sales are collected by the carrier where the passenger embarks the journey, revenues are shared between national carriers according to the distance travelled in respective countries. There is a settlement of the revenues undertaken by a clearing house once a month.

When considering competition arising from other means of public transport, both domestic and international long distance railway transport competes predominantly against bus operators and in certain cases, against aviation carriers.

Commercial

Overview

Commercial passenger transport encompasses the non-regulated passenger operations that include Pendolino operations on the route from Prague to Ostrava and the majority of EuroCity and InterCity trains. Such transport represents approximately 2 per cent. of total passenger services provided by ČD in terms of train kilometres.

Market

Entering the commercial passenger transport market requires permission by the Ministry of Transport based on a public procurement procedure and traffic route capacity has to be allotted by SŽDC. Some companies are interested in entering the passenger railway transport market, however, currently their possibility to do so is still limited:

- RegioJet (a subsidiary of Student Agency) received a licence in 2009 when it intended to enter regional lines, however, no region has organised a tender for railway transport operator since then. RegioJet is currently looking at the commercial non-subsidised routes (mainly Prague - Ostrava).

- Leo Express was established in 2010 and is expected to operate five modern trains with its operations commencing in December 2012.

Freight Rail Transport

Overview

ČD Cargo transports a wide range of products, from raw materials to products with high added value, as well as the transportation of containers and non-standard consignments. The most dominant freight includes solid fuels (34 per cent.), metals and mining (21 per cent.), building materials (8 per cent.), large containers (8 per cent.). Other services provided by ČD Cargo include the leasing of railway wagons, shuttle transport, storage, delivery of goods and other services. As of the date of this prospectus, ČD Cargo is not a beneficiary of any compensation from the State as its services are provided solely on a commercial basis.

Market

Freight market can be divided into local, transit, export and import. Combined freight volumes of transit, export and import represented together approximately 63 per cent. of ČD Cargo's freight volumes in 2010 and 60 per cent. in 2009. The remaining segment of the freight market is the local market (approximately 37 per cent. of total volumes) where ČD Cargo dominates the market with a 88.77 per cent. share of the total transported volume in 2010 and operates the largest railcar fleet. The most active competitors to ČD Cargo are AWT, Unipetrol Doprava and other railway transport companies. From a European perspective, the most significant competitors of ČD Cargo entail Deutsche Bahn Schenker Rail, Rail Cargo Austria and Polskie Koleje Państwowe (PKP) Cargo.

Other Activities

Alongside the provision of rail transport services, the Group engages in other activities including the provision of certain IT services, educational services, repair services for rolling stock and railroad infrastructure, testing services, travel services, advertising and catering services and research and development in relation to railway transportation.

PRICING, COMPENSATIONS AND TARIFF REGULATION

Passenger Rail Transport – Regional

Overview

Regional passenger transport is governed by long-term contracts concluded between ČD and each of the Czech regions including the city of Prague. The Government signed a *"Memorandum on Ensuring Stable Financing in the Regional Railway Passenger Transport"* in 2009. This memorandum specifies funds from the State budget in the amount of CZK 2.649 billion (which will be allocated to each of the regions including the city of Prague according to volume of transport undertaken; the amount is to be indexed every year according to the average annual consumer price index) to be made available to the regions, including the city of Prague, to assist with the compensation to be paid to ČD in the respective period (please see *"Business Overview – Passenger Rail Transport – Regional – Overview"* above for more details).

The compensation equals the amount of estimated eligible costs including a 2 per cent. margin to allow for a reasonable profit associated with the provision of passenger transport. The compensation is pre-agreed each year in advance based on projections and paid to ČD monthly on a pro-rata basis (therefore not constraining ČD in terms of liquidity). At the end of the year, the difference between estimated costs and actual figures is settled. ČD can achieve profit of up to 5 per cent. arising from higher efficiencies or higher revenues with respect to the original projections. The pre-agreed compensations can be adjusted in case of higher energy costs of more than 10 per cent, higher profit of more than 5 per cent, or changes in taxation. The compensations are indexed on an annual basis according to the consumer price index.

Liberalisation of the regulated regional passenger transport in the Czech Republic

It is currently envisaged that six of the Czech regions may undertake more tenders on a competitive basis in the next eight years which represented approximately 38 per cent. of train-kilometres in 2010. It is anticipated that the market opening might attract a smaller number of new entrants when compared to long distance passenger transport due to its greater reliance on regional compensation and the regional areas are less profitable routes (please see *"Business Overview –Passenger Rail Transport – Regional – Market"* above for more details).

Passenger Rail Transport - Long Distance (domestic and international)

Overview

Long distance passenger transport is provided pursuant to an agreement with the State which has similar terms and conditions to the contracts governing regional passenger transport (please see *"Business Overview – Passenger Rail Transport – Long Distance (domestic and international) – Overview"* above for more details).

The pre-agreed compensation can be adjusted in case of higher energy costs of more than 10 per cent., higher profit of more than 5 per cent., changes in transport volume or changes in taxation. Unless mutually agreed upon, changes to volumes of transport for the purposes of calculations that shall not deviate by more than 5 per cent. from the previous year.

Liberalisation of the regulated long distance passenger transport in the Czech Republic

Long-haul rail transport is regulated by the State through the Ministry of Transport. Gradual liberalisation has been discussed since 2004. A long-term contract was signed with the Czech Republic acting through the Ministry of Transport in 2009 which outlines the possibility of the gradual opening of this market segment to competition by organising tenders for logically and operationally linked parts of the transport timetable. Over the ten-year period of the contract, each year up to 15 per cent. of the long-haul segment (measured according to the 2010 schedule), may be gradually tendered so that by 2019 up to 75 per cent. of the total transport timetable may have been allocated in tenders. The volume of transport services ordered by the Czech Republic acting through the Ministry of Transport for the 2010 schedule was 38 million train-kilometres. Based on the public announcement of the Ministry of Transport, the Ministry of Transport has, in 2010, filed an application for publication in the official journal of the EU of a tender in respect of railway lines representing up to 3 per cent. of the railway lines operated by ČD as of the date of this prospectus.

Passenger Rail Transport - Commercial

Commercial passenger transport is undertaken at ČD's own risk. ČD and other carriers are not incentivised to enter commercial routes. ČD and other carriers base their decision purely on economic grounds and set prices according to desired profitability. Revenues are generated from ticket sales; neither State compensation nor compensation from the regions, including the city of Prague, is provided.

Freight Rail Transport

ČD Cargo's revenues are 99 per cent. attributable to individual contracts where pricing is set in each individual case and is based purely on commercial grounds. Although ČD Cargo's tariffs can be taken into consideration, prices that can be obtained from competitors, costs of service or a long-term potential relationship benefit for ČD Cargo are recognised as the main factors driving the prices of ČD Cargo's services. In certain cases set forth in the internal policies, the Commercial Council consisting of a Director of Economics, a Director of Operations and a Director of Commerce must approve the terms and conditions of a price proposal.

The remaining ČD Cargo customers are charged in accordance with ČD Cargo's standard tariffs, which also set out the standard terms and conditions. Domestic freight, which is not stipulated by individual contracts, is governed by the Tariff for Transport of Complete Wagon Loads ("**TVZ**"). International union tariffs are agreed with the respective foreign freight operators in the below outlined agreements:

Identifier	Name of tariff
CIWT	Czech/Italian Railway Cargo Tariff
CSSKWT	Czech/Slovakian-Slovenian/Croatian Tariff for Transport of Complete Wagon Loads
CSSEBB	Czech/Slovakian-Swiss Tariff for Complete Wagon Loads
CSUSKWT	Czech/Slovakian/Hungarian-Slovenian/Croatian Tariff for Transport of Complete Wagon Loads
DNCWT	German/Netherlands-Czech Tariff for Transport of Complete Wagon Loads
DNSKWT	German/Netherlands-Slovakian Tariff for Transport of Complete Wagon Loads
DNUWT	German/Netherlands-Hungarian Tariff
MTT	International Railway Transit Tariff

OCWT	Austrian/Czech Railway Cargo Tariff
PIGT	Polish/Italian Railway Cargo Tariff
POGT	Polish-Austrian Tariff
PSCURT	Polish-Slovakian-Czech-Hungarian-Romanian Tariff for Transport of Complete Wagon Loads
SCNT	Slovakian-Czech Railway Cargo Tariff for Transport of Complete Wagon Loads
SOGT	Swedish-Austrian Tariff
STSG	Swedish-Czech/Slovakian Railway Cargo Tariff
SUGT	Swedish-Hungarian Tariff

Domestic and international freights

ČD Cargo provides freight transport to destinations both within and outside the Czech Republic. Domestic freight transport is undertaken by ČD Cargo whereas international freight can be provided solely by ČD Cargo or in cooperation with foreign freight operators. ČD Cargo enters into such cooperation in the event that it does not fulfil the prerequisite conditions for operating in the respective country or if such cooperation is more beneficial for ČD Cargo due to, for example, the low utilisation of inbound vehicles returning from abroad or other factors affecting profitability.

Alternatively, ČD Cargo provides freight transport to final destination, subject to obtaining licences for operating rail transport in the respective country. As of the date of this prospectus, ČD Cargo is licensed to provide freight transportation in Hungary, Poland, Slovakia and to a limited extent, in Germany.

Class of freight

Individual contracts take into account profitability, the nature of the differing freight classes and competition from other means of transport.

INTERNATIONAL COOPERATION

ČD plays an active role in the development of international cooperation, predominantly with respect to international organisations within the rail transport sector and international projects. The most important partnerships are those with the Community of European Railway and Infrastructure Companies ("**CER**") the International Union of Railways (**"UIC"**), The Organisation for Railways Cooperation (**"OSŽD"**), projects of the EU Structural Funds and 6th EU Framework Programme for Research and Development.

Community of European Railway and Infrastructure Companies

CER is based in Brussels and represents the interests of its members to the European Parliament, the Commission and Council of Ministers as well as to other policymakers and rail transport carriers. CER's main focus is to promote a strong rail industry, which is essential to the creation of a sustainable, efficient, effective and environmentally sound transport system.

International Union of Railways

The UIC mission is to promote rail transport globally and meet the challenges of mobility and sustainable development.

The Organisation for Railways Cooperation

The Organisation for Railways Cooperation promotes international rail transport between Europe and Asia with the goal of unifying transport policies, technical standards and international law governing transport and boosting rail transport competitiveness.

CORPORATE GOVERNANCE

The Group is governed by the Steering Committee, the Board of Directors, the Supervisory Board and the Audit Committee.

The Steering Committee

The Government exercises its rights as shareholder of ČD by means of a Steering Committee. The Steering Committee comprises three representatives of the Ministry of Transport and one employee from each of the following ministries: the Ministry of Finance, the Ministry of Defence, the Ministry of Industry and Trade, and the Ministry for Regional Development, each with written government authorisation.

Set out below are members of the Steering Committee of ČD as of the date of this prospectus:

Name	Position	Position Within the Relevant Ministries
Ing. Ivo Vykydal	Chairman	Deputy Minister of Transport
Mgr. Jakub Hodinář	Vice Chairman	Deputy Minister of Education, Youth and Sports (and at the time of appointment under the Ministry of Transport).
Ing. Lukáš Hampl	Member	Managing Director, the Ministry of Transport
Ing. Michael Hrbata	Member	Deputy Minister of Defence
Ing. Michal Janeba	Member	Deputy Minister of Regional Development
Ing. Miloslav Müller	Member	Chief of Staff of the Minister of Finance
JUDr. Petr Polák	Member	Chief of the Division of Interdepartmental Issues and State-Owned Enterprises, the Ministry of Industry and Trade

The members of the Steering Committee were appointed pursuant to a Government resolution dated 11 August 2010 except for Ing. Ivo Vykydal who was appointed pursuant to a Government resolution dated 27 April 2011 and JUDr. Petr Polák who was appointed pursuant to a Government resolution dated 7 March 2007. Members are appointed for an indefinite period until the Government revokes their position on the Steering Committee.

The Board of Directors and Executive Officers

The Board of Directors is ČD's statutory body, which directs its operations and acts on its behalf. The Board of Directors decides on all matters related to ČD other than those that are within the responsibility of the Supervisory Board or the Steering Committee pursuant to the Articles of Association or the applicable laws. The Chairman and all other members of the Board of Directors are appointed and recalled by the Supervisory Board. The first members of the Board of Directors were appointed by the Government on a proposal by the Ministry of Transport. All the directors and executive officers listed below have their business addresses in the registered office of ČD.

Composition and roles

Name	Position within the Board of Directors / Executive Officer Position and respective appointment dates	Background
Ing. Petr Žaluda	Chairman of the Board of Directors as of 1 February 2008 / Chief Executive Officer ("**CEO**") as of 1 February 2008.	Mr Žaluda graduated from the Technical University in Brno and completed study programmes at Utrecht University and Sheffield Business School. He worked as Country Manager for Stork Demtec. Between 1993 and 1996, Mr Žaluda worked as Branch Office Manager in Ernst & Young. In 1998, he became the CEO and Chairman of the Board of Directors of Winterthur, penzijní fond, and between 2002 and 2006, he managed the Winterthur Group in the Czech Republic and Slovakia. Prior to joining ČD, Mr. Žaluda was the Country CEO of AXA for the Czech Republic and Slovakia.
Ing. Antonín Blažek	Member of the Board of Directors as of 14 May 2009 / Deputy of CEO – Passenger transportation services as of 17 March 2009.	Mr Blažek graduated from the Faculty of Mechanical Engineering at the Czech Technical University in Prague where he majored in transport and handling technology. In 1987, he joined Československé státní dráhy (Czechoslovak State Railways) at the Praha-Libeň railway yard. He was the head of the PJ Praha-Libeň (DK V Praha-sever) operations in 1994 and 1995 and then worked as a stationmaster of PJ Praha-Libeň until 1996. From 1997, Mr Blažek worked at the ČD headquarters as a consultant to deputy CEO for assets administration and then in the strategic department, where Mr Blažek managed the international projects department. From 2003 to 2005, Mr Blažek worked as a technical consultant to the deputy CEO for business and operations; he managed a compliance committee for approval of trains of the 680 line for international operation. In 2005 Mr Blažek was the director of the infrastructure department and director of the office of the deputy CEO for transport routes. Since November 2005, he has been in the position of the Chairman of the Board of Directors of Výzkumný Ústav Železniční, a.s. Between 2005 and 2009, Mr Blažek held the position of CEO of VÚŽ. Since 2009 he has been a member of the Board of Directors of EUROSIGNAL, a.s.
Ing. Jiří Kolář, Ph.D.	Member of the Board of Directors as of 9 May 2005 / Deputy of CEO – Operations as of 1 February 2008.	Mr. Kolář graduated from the Faculty of Operations and Economics of the Transport University in Žilina where he majored in transport operations and economics. In 1983, he joined Československé státní dráhy (Czechoslovak State Railways) where he performed various duties relating to railway operations. Between 1993 and 1999, he worked as stationmaster in Kladno. In 1999, he completed postgraduate studies at the University of Pardubice. Between 1999 and 2004, he was the Director of the Directorate in Ústí nad

Name	Position within the Board of Directors / Executive Officer Position and respective appointment dates	Background
		Labem.
Ing. Michal Nebeský	Member of the Board of Directors as of 12 September 2008 / Deputy of CEO – Finance as of 1 September 2008.	Mr. Nebeský graduated from the University of Economics in Prague, Faculty of International Trade and Finance. From 1991 until joining ČD, Mr. Nebeský worked at Citibank where he was appointed risk manager for the Czech Republic in 2003 and risk manager for Central Europe in 2005.
Ing. Milan Matzenauer	Member of the Board of Directors as of 14 November 2008 / Deputy of CEO – Asset Administration as of 1 December 2008.	Mr. Matzenauer graduated from the Technical University in Brno, where he majored in transport buildings and structures. Prior to joining ČD, he worked as a sales director in Skanska DS.

ČD Cargo is personally connected to ČD. Ing. Milan Matzenauer, who is a member of the Board of Directors of ČD and Deputy of ČD's CEO – Asset Administration, is also a member the Board of Directors of ČD Cargo. Ing. Petr Žaluda, who is the Chairman of the Board of Directors of ČD and ČD's CEO, as well as Ing. Michal Nebeský, who is a member of the Board of Directors of ČD and Deputy of ČD's CEO – Finance, are also members of the Supervisory Board of ČD Cargo.

The Supervisory Board

The Supervisory Board’s powers include the power to: (i) supervise the Board of Directors and ČD’s business activities; (ii) inquire into ČD’s financial matters; (iii) grant prior consent for certain key decisions of the Board of Directors, including acquisitions and disposals of certain assets; (iv) review the report on ČD’s business activity and its assets and it submits its opinion to the general meeting regarding the same; and (v) approve the annual business plan, including the business strategy, and budgets of railway transport operation of ČD.

Composition and roles

Name and position	Position within the Supervisory Board and appointment date	Organisation and business address
Ing. Lukáš Hampl, Minister of Transport	Chairman of the Supervisory Board as of 16 September 2010	Ministry of Transport of the Czech Republic, nábř. L.Svobody 1222, 110 15 Prague 1
Ing. Michael Hrbata, Deputy Minister of Defence	Member as of 16 September 2010	Ministry of Defence of the Czech Republic, Tychonova 1, 160 00 Prague 6
Ing. Miroslav Nádvorník, Chairman of the Board of Directors and CEO of MD Logistika, a.s.	Member as of 16 September 2010	MD logistika, a.s., Křičenského 451, 533 03 Dašice v Čechách
Ing. Jaroslav Palas, Governor of the Moravian-Silesian Region	Member as of 4 March 2010	Regional Office of the Moravian-Silesian Region, 28. října 117, 702 18 Ostrava
Zdeněk Prosek	Member as of 20 April 2007	Heyrovského 42, 301 00 Plzeň

Bc. Jaroslav Pejša, Chairman of the Confederation of Railroad Unions	Member as of 5 May 2011	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Vladislav Vokoun ,Vice-Chairman of the Confederation of Railroad Unions	Member as of 1 January 2009	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Antonín Leitgeb, Secretary of the ČD Committee of the Confederation of Railroad Unions	Member as of 1 January 2009	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9

The Audit Committee

The General Assembly elects and removes members of the Audit Committee out of members of the Supervisory Board or third parties.

The Audit Committee supports the Supervisory Board in the performance of its monitoring role. It deals in particular with issues of accounting, risk management and compliance, the necessary independence of the auditors, the process of awarding the audit engagement to the auditor, determining key audit issues and the fee agreements. The Audit Committee comprises three members each of whom is elected for a five year term. The Audit Committee convenes at least four times a year.

Members of the Audit Committee

Ing. Miroslav Zámečník	Chairman
Ing. Michael Hrbata	Member
Zdeněk Prosek	Member

Conflicts of Interest

According to representations made by each member of the Steering Committee, the Supervisory Board, the Board of Directors and the Audit Committee, there are no conflicts of interest or agreements between any duties to ČD and their private interests or other duties.

Recent changes in Corporate Governance and Management Structure

Jaroslav Král resigned from his position as the Supervisory Board Chairman and Member as of 31 August 2010. As of 15 September 2010 the Steering Committee recalled the Supervisory Board Members, Karel Březina, Tomáš Chalánek and Pavel Škvára.

Since February 2008, the Chairman of the Board of Directors is Ing. Petr Žaluda who replaced Mr. Josef Bazala.

By resolution no. 582 of 11 August 2010 the Government cancelled the appointment to the Steering Committee of ČD for Roman Boček, Pavel Škvára, Eduard Havel, Bohumil Haase, and Miroslav Kalous.

MATERIAL CONTRACTS

Passenger Rail Transport

The Group considers the following agreements as the most material agreements for its passenger rail transport activities:

- Regional passenger services – ČD is a party to long term contracts with each of the 14 Czech regions including the city of Prague, such contracts having been entered into for the respective periods not ending before 2019. The contracts stipulate the provision of regional passenger transport in the public interest by ČD. The volumes of transport for the coming years are to be stipulated in amendments to these contracts.

- Long distance passenger services – ČD concluded the 10-year contract with the Ministry of Transport in 2009 to secure the traffic needs of the Czech Republic in the public interest. In 2010 ČD provided, and in 2011 ČD is to provide, pursuant to this contract, approximately 37 and 35 million train-kilometres, respectively. The volumes of transport for the following years are to be stipulated in amendments to this contract.

- Agreement on provision of traffic control services – ČD concluded the agreement with SŽDC on 1 July 2008. The agreement addresses the possibility of price adjustment and also indicates that the maximum price for the first half of 2011 can be set at CZK 2,450 million. SŽDC is charged based on the number of hours spent by ČD's employees with the unit price per hour being driven by job categorisation. As the activity will be transferred to SŽDC, the contract will be terminated on 30 June 2011.

- Capacity allocation agreement – The agreement was entered into between ČD and SŽDC on 30 June 2009 for an indefinite period. The agreement stipulates the maximum price set by a decree by the Ministry of Finance. It governs payments to SŽDC in respect to capacity allotment, usage of railway infrastructure and other services (such as publishing rail schedules, etc.).

- Purchase of electricity – ČD is a party to a contract with ČEZ Prodej s.r.o. which provides for supplies of traction electricity from 1 January 2011 till 31 December 2011.

- Purchase of diesel – ČD is a party to a contract with Paramo, a.s., entered into on 25 June 2008, in relation to the purchase of diesel. ČD is also party to a contract with Paramo, a.s., entered into on 25 June 2008, in relation to storage of diesel reserves. These contracts expire on 30 June 2011 and ČD is currently undertaking all necessary steps to tender a new contract to secure diesel supplies beyond that date.

Freight Rail Transport

The Group considers the following agreements the most material agreements for its freight rail transport activities:

- Capacity allocation agreement - The agreement was entered into between ČD Cargo and SŽDC on 31 December 2009 for an indefinite period. The agreement stipulates a maximum price set by a decree by the Ministry of Finance and terms under which SŽDC can renegotiate the price once a year (in case inflation is greater than 10 per cent.).

- Material supplies agreement – The agreement between ČD Cargo and ČD was entered into on 24 March 2010 for an indefinite period. The agreement stipulates the conditions of diesel, engine oil and replacement parts supplies.

- Electricity supply agreement – The agreement between ČD Cargo and ČD was entered into on 16 May 2011. The agreement stipulates supplies of traction electricity. Nevertheless, ČD Cargo and ČD have not yet entered into a written amendment to this agreement, pursuant to which the terms of deliveries under this agreement for the year 2011 are to be specified.

ONGOING MATERIAL LITIGATIONS

In the ordinary course of its business activities, the Group encounters litigation arising out of, among other things, compensation of damages, contractual relationships and real estate ownership. Currently, the Group is involved in 11 material litigations as defendant and in 12 material litigations as claimant where the litigations are considered material on the basis that the amount in dispute exceeds CZK 0.5 million. The total value of amounts claimed from the Group amounts to approximately CZK 303 million.

The most relevant pending or potential material litigations against the Group or related to the Group's business activities are as follows:

- In May 2009, the Chairman of the Office for the Protection of Competition reduced a fine imposed on ČD for the abuse of a dominant position from CZK 270 million to CZK 254 million. According to the Office, ČD abused its dominant position in the market for rail freight of large volumes of natural resources and raw materials pursuant to both the Act (143/2001 Coll.) on the Protection of Competition, as amended, and the Treaty on Functioning of the EU. ČD has appealed against the decision of the Chairman to the Regional Court in Brno which upheld the fine in May 2011. ČD appealed against the decision of the Regional Court in Brno to the Supreme Administrative Court. In August 2009, the Regional Court in Brno stated that the payment of the fine imposed by the Chairman would not be suspended pending the appeal process. However, the Office confirmed that the fine has in fact been suspended pending the appeal process and on this basis ČD has not yet paid the fine. Even if the fine was confirmed by the Supreme Administrative Court, no interest on such late payment will accrue.

- According to the electricity supply agreement that was supposed to be entered into between ČD Cargo and SŽDC in 2009 (but has never actually been entered into), ČD Cargo was supposed to pay a set price to SŽDC per kWh of delivered electricity in 2009. ČD Cargo considered that, when setting the price, SŽDC failed to comply with the Public Procurement Act. Therefore, ČD Cargo did not pay SŽDC the full price as set out in the draft agreement (despite the electricity being supplied by SŽDC to ČD Cargo), and as a result SŽDC filed a court claim for unjust enrichment in the amount corresponding to the part of the set price not paid by ČD Cargo in the amount of approximately CZK 240 million.

- According to its press release, Student Agency, a Czech travel and transport company, submitted a complaint to the EU Commission against the Czech Republic in May 2010 regarding the fact that four Czech regions awarded public rail service contracts for the provision of rail services in their respective regions in excess of CZK 150 billion for another 10 to 15 years to ČD without following a proper tender process. According to Student Agency, this violates principles of non-discrimination and transparency. ČD has not received any communication from the EU Commission in this respect.

- On 9 April 2004, Škoda Transportation a.s. (formerly Škoda Dopravní Technika s.r.o.) ("**Škoda**") and ČD entered into an agreement for the delivery of 20 electric locomotives. According to ČD, Škoda breached the delivery terms of the agreement and, consequently, in May 2010 ČD claimed the payment of a contractual penalty of CZK 208 million for the late delivery under the agreement. Since the claim for the contractual penalty was not settled by Škoda, ČD did not make certain payments under the agreement with the intention to unilaterally set-off its obligation to make such payments against the contractual penalty claimed from Škoda. As Škoda has denied the claim for the contractual penalty, it cannot be ruled out that it will claim default interest from ČD relating to the stopped payments. Currently, Škoda and ČD are in the process of solving this potential dispute through commercial negotiations and no claim has so far been filed with the court. Nevertheless, it cannot be ruled out that a settlement will not be reached and a claim will be filed with the respective court in respect of this dispute

- Currently there are several material health damages claimed from ČD, with the largest claim for such damages amounting to approximately CZK 18.5 million. ČD is a party to an insurance contract pursuant to which any health damage compensation ordered against ČD would be covered with an excess in the amount of CZK 3 million.

RELATED PARTY TRANSACTIONS

Loans to Related Parties

The Group provided no loans to related parties as at and for the years ended 31 December 2010 and 31 December 2009.

Remuneration and Benefits of Key Management Members

In addition to the possibility of using reduced fares, the members of ČD's statutory and supervisory bodies were provided with cash bonuses of CZK 24,446 thousand and CZK 20,633 thousand in 2010 and 2009, respectively. Management of ČD is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

For remuneration and benefits provided to key management members, please refer to section 30.2 of the consolidated audited financial statements of ČD as at, and for the year ended on, 31 December 2010.

SŽDC

The relationship of the Group with SŽDC is based on the evolution of the railway industry as outlined in the *"Industry Overview"* below. SŽDC, as the current owner and operator of the railway network in the Czech Republic, is responsible for the operation, modernisation and development of the railway system in the Czech Republic which is essential for the Group's business (please see "*Railway Network in the Czech Republic*" above for more details).

The core of the relationship consists in the Group providing the traffic control services to SŽDC and in the Group using the railway network infrastructure owned by SŽDC for carrying out its business activities. The provision of such services is contractually regulated by the agreement on provision of traffic control services between ČD and SŽDC. Use of the railway network infrastructure is contractually regulated by capacity allocation agreements (please see *"Material Contracts"* as well as *"Ongoing Material Litigations"* above for more details).

The relationship with SŽDC has been formed by Government policies in respect of the railway industry in the Czech Republic in general and the restructuring of the Group in particular. The ongoing restructuring includes, among others, the transfer of employees to SŽDC pursuant to the resolution of the Government dated 9 February 2011.

For transactions with SŽDC, please refer to section 30.3 of the consolidated audited financial statements of ČD as at, and for the year ended on, 31 December 2010.

INDUSTRY OVERVIEW

The Czech Republic has an extensive railway infrastructure relative to the size of the country. The density of the railway network in the Czech Republic is high, exceeding that of both Germany and France. The high density of the rail network allows railway operators to compete against other modes of transportation.

The table below sets out the comparative network length and density. The railway length figures are correct as at 31 December 2009, except for figures provided in respect of Germany, which are given as at 31 December 2008, and figures in respect of France, Hungary, and Austria, which are given as at 31 December 2007. Density is calculated as the total track length in kilometres divided by country's area in square kilometres:

	Railway length	**Railway density**
	(*km*)	(*km per 1,000km^2*)
Czech Republic	9,578	121.4
Germany	37,798	105.9
France	31,154	48.4
Poland	20,360	65.1
Hungary	7,808	83.9
Austria	6,256	74.6
Bulgaria	4,150	37.4
Slovakia	3,623	73.9

Source: Eurostat

The number of carriers utilising the railway infrastructure has increased from 46 in 2003 to 70 in 2010. This increase was driven particularly by an increase in the number of carriers operating freight transport.

The below table illustrates the increase in the number of operators in the Czech Republic since 2003:

Year	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
No. of carriers	46	50	52	53	56	53	62	70

Source: SŽDC Annual Report 2009 and Carriers Code-Book 2010

Passenger Transportation

Modes of Passenger Transportation

Railway passenger transport, as measured by the number of passengers, has decreased by approximately 10 per cent. since 2000 reflecting a general industry trend observed in many European countries. Bus transport in the Czech Republic has declined by over 16 per cent. for the same period. Air travel has experienced the most dynamic growth, more than doubling since 2000, as a result of decreasing air travel fares and market penetration by low cost carriers. The increase in passenger car transport since 2000 was driven by increasing disposable incomes by households as the Czech economy enjoyed robust economic growth.

The table below shows the performance of passenger transport as measured by millions of passengers:

	Year		
	2000	**2008**	**2009**
Rail transport	184.7	177.4	165.0
Bus transport	438.9	376.6	367.6
Air transport	3.5	7.2	7.4
Inland waterway transport	0.8	0.9	1.2
Urban public transport	2,289.7	2,323.8	2,262.0
Passenger car transport	1,980.0	2,250.0	2,240.0

Source: Transport Yearbook by the Ministry of Transport 2009
Note: Urban public transport refers to public transport in intra-city transportation

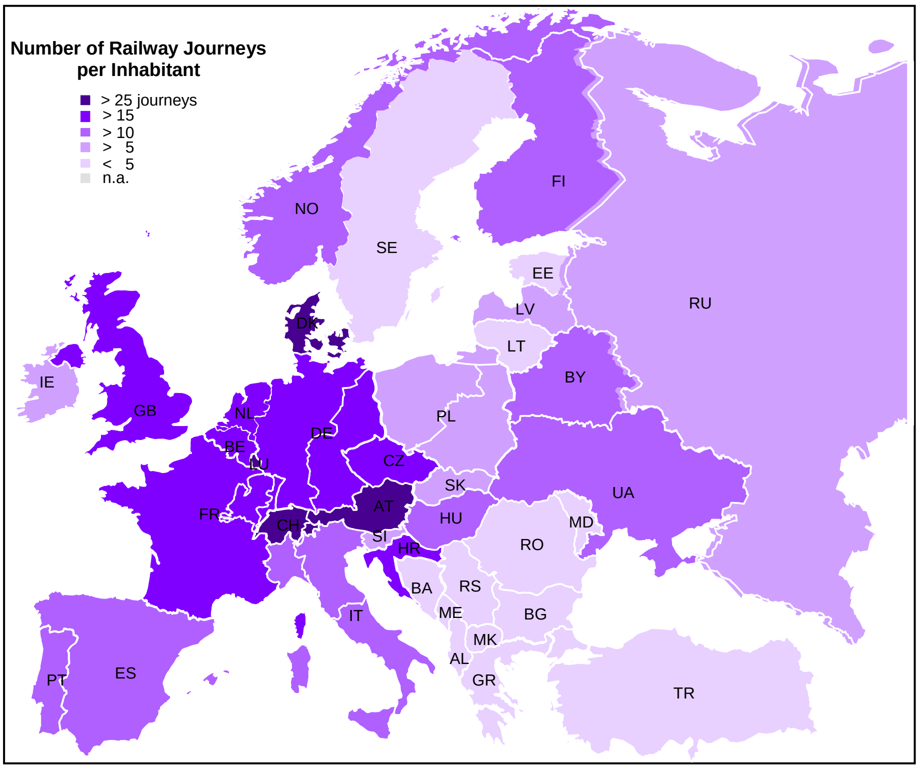
The table below shows performance of passenger transport as measured by millions passenger-kilometres:

	Year		
	2000	2008	2009
Rail transport	7,229.6	6,803.3	6,503.2
Bus transport	9,351.3	9,369.1	9,469.6
Air transport	5,864.7	10,749.0	11,330.5
Inland waterway transport	7.7	17.3	10.5
Urban public transport	14,541.4	15,880.5	15,555.1
Passenger car transport	63,940.0	72,380.0	72,290.0

Source: Transport Yearbook by the Ministry of Transport 2009
Note: Urban public transport refers to public transport in intra-city transportation

Passenger Railway Transportation Usage

The utilisation of rail services in the Czech Republic is comparable to the largest European economies as can be seen from the below map showing the number of railway journeys made per inhabitant in Europe.



Source: Union Internationale des Chemins de Fer, Passenger Transportation Segmentation

ČD ranks among the ten largest railroad businesses in the EU according to train kilometres serviced:

Country	Carrier	Train kilometres
Germany	DB AG	885.4
France	SNCF	454.6
Italy	FS SpA	301.8
Poland	PKP	179.6
Spain	RENFE	178.2
Czech Rep.	CD	148.9
Netherlands	NS	113.3
Austria	ÖBB	98.0
Belgium	SNCB NMBS	91.4

Source: Union Internationale des Chemins de Fer 2010

The following statistics provide a comparative overview of passenger rail transportation as for the year ended 31 December 2009.

Carrier	Country	Distance Run per Inhabitant	Number of Railway Journeys
		(kilometres)	*(per Inhabitant)*
ČD	Czech Republic	661	17
SNCF	France	1,347	17
OBB	Austria	1,253	26
DB	Germany	934	23
MAV	Hungary	597	11
PKP	Poland	466	6
ZSSK	Slovakia	418	9
BDZ	Bulgaria	321	5

Source: Union Internationale des Chemins de Fer 2009

The Czech Republic's passenger transportation can be divided into three segments: regional, long-distance and commercial. The table below shows the performance of these segments in 2010 as measured by train kilometres:

	Train Kilometres
	(thousand)
Regional	81,532
Long-distance	38,424
Commercial	2,532

Source: ČD Data 2010

Domestic Passenger Market

In 2009, ČD provided 99.4 per cent. of all passenger rail transportation in the Czech Republic (as measured by passenger-kilometres). ČD's dominant share in passenger rail transportation is also reflected in gross tonnes kilometres and train kilometres travelled. Please see the table below for the figures:

Carrier	Train kilometres			
	2008	2009	2008	2009
	(per cent.)			
ČD	99.82	99.82	99.14	99.18
Viamont	0.14	0.13	0.63	0.60
OKD	0.02	0.01	0.12	0.10
Other carriers	0.02	0.04	0.11	0.12

Source: SŽDC Annual Report 2009
** Gross Tonnes kilometres is a product of gross weight of railway vehicles integrated in the train and distance travelled in kilometres. Train kilometres represent the distance travelled by trains in kilometres.*

According to the preliminary figures from the Ministry of Transport, the data has not changed in 2010.

ČD benefits from a low operating labour cost, resulting in a competitive cost position compared to other European railway operators. Please see the below table for the figures for the year 2009:

		Staff costs per employee	Passenger traffic cost per km
		(EUR p.a.)	*(EUR cents)*
ČD	Czech Republic	19,002	11.9
NSB	Norway	70,276	16.6
SNCB	Belgium	60,167	19.7
SNCF	France	55,403	14.6
OBB	Austria	50,651	12.0
NS	Netherlands	46,700	16.1
DB	Germany	46,334	-
PKP	Poland	9,966	7.2

Source Union Internationale des Chemins de Fer, 2009

Freight Transportation

Due to its geographical position, the Czech Republic serves as a key transportation corridor for freight between East and West Europe. According to the Union Internationale des Chemins de Fer, ČD Cargo has ranked as the fourth largest freight carrier in Europe as measured by tonnes carried in 2010 and was the fifth largest in 2009. According to SŽDC statistics, ČD Cargo is also the dominant domestic player with over 80 per cent. market share of the freight transportation market in the Czech Republic from 2008 to 2010.

Modes of Freight Transportation

The share of freight transported by road and rail respectively has now largely reached equilibrium. To an extent, road and rail transportation are in competition, with rail freight facing indirect competition from road haulage companies in some freight sectors. Road transport may be favoured over rail transport as the flexibility offered by road networks enables products to be delivered door to door. Nevertheless, for most products, there is no direct competition between the two means of transportation. Commodities with high volume and weight as compared to their value (such as coal, metals and mining materials) are more suited to transport by rail. However, goods are predominantly transported by road (including domestic transport as well as imported and exported goods, and goods in transit). Waterways do not represent a viable alternative to rail transportation while air is typically used for more important or urgent goods deliveries due to its higher cost.

The below two tables provide an overview of the modes of transport and the respective volumes of goods.

	Transport of goods					
	2000	**2005**	**2006**	**2007**	**2008**	**2009**
	(thousands of tonnes)					
Total transport of goods	**523,249**	**560,037**	**554,994**	**565,708**	**540,731**	**458,328**
Rail transport	98,255	85,613	97,491	99,777	95,073	76,715
Road transport	414,725	461,144	444,574	453,537	431,855	370,115
Inland waterway transport	1,907	1,956	2,032	2,242	1,905	1,647
Air transport	16	20	22	22	20	14
Oil pipeline transport	8,346	11,305	10,875	10,131	11,877	9,837

Source: Ministry of Transport 2009t

	Transport performance					
	2000	**2005**	**2006**	**2007**	**2008**	**2009**
	(millions of tonne - kilometres)					
Total transport	**58,952**	**61,397**	**69,304**	**67,463**	**69,528**	**60,571**
Rail transport	17,496	14,866	15,779	16,304	15,437	12,791
Road transport	39,036	43,447	50,369	48,141	50,877	44,955
Inland waterway transport	771	781	818	898	863	641
Air transport	38	45	47	41	37	28
Oil pipeline transport	1,612	2,259	2,291	2,079	2,315	2,156

Source: Ministry of Transport 2009

In 2009 the average distance for rail freight transportation in the Czech Republic was 166.7 km, while trucks generally operate on a more regional basis.

	Average distance of goods transported					
	2000	**2005**	**2006**	**2007**	**2008**	**2009**
	(kilometres)					
Aggregate Average Distance	**112.7**	**109.6**	**124.9**	**119.3**	**128.6**	**132.2**
Rail transport	178.1	173.6	161.8	163.4	162.4	166.7
Road transport	94.1	94.2	113.3	106.1	117.8	121.5
Inland waterway transport	404.1	399.1	402.6	400.7	452.9	388.9
Air transport	2,350.6	2,296.4	2,142.2	1,887.4	1,806.7	2,000.1
Oil pipeline transport	193.1	199.8	210.7	205.2	194.9	219.2

Source: Ministry of Transport 2009

Freight Transportation Segmentation

ČD Cargo transports freight relating to a range of industrial sectors, the table below shows the proportion of freight (according to volume) transported in 2010:

	Transportation by freight type of ČD Cargo
	(per cent.)
Solid fuels (coal and lignite)	34
Metals & Mining (excluding coal and ignite)	21
Building materials	8
Large containers (including consumer goods)	8
Paper and paper products	8
Liquid fuels (oil and gas)	5
Automotive	4
Chemical and agricultural products	4
Food and agricultural products	2
Others	6
Total	100

Source: ČD Cargo data

Domestic Freight Market

The Czech freight market can be divided into local, transit, export and import traffic. The combined cross-border freight volumes of ČD Cargo (aggregating transit traffic, export and import traffic) represented approximately 63 per cent. of ČD Cargo's freight volumes in 2010:

	Freight traffic
	(per cent.)
Local	37
Import	27
Transit	10
Export	26
Total	100

Source: ČD Cargo data

The Czech freight market, which represented approximately 37 per cent. of total freight volumes in the year ending 31 December 2010, is fully liberalised and deregulated. ČD Cargo dominates the domestic market with an 88.77 per cent. share per tonne kilometre of the total transported volume in 2009, and operates the largest railcar fleet. As of 31 December 2009, the other key players in the freight market include OKD (5.18 per cent. market share per gross tonne kilometre), Unipetrol Doprava (2.80 per cent. market share per gross tonne kilometre), Viamont Cargo (0.75 per cent. market share per gross tonne kilometre) and TSS (0.50 per cent. market share per gross tonne kilometre). Domestic competitors tend to specialise on one commodity and/or are subsidiaries of larger industrial companies.

Overall, ČD Cargo enjoys a dominant position in the rail freight transportation market in the Czech Republic, vis-à-vis the other domestic carriers.

	Transportation of Freight by Rail			
Carrier	**2008 Gross Tonnes km***	**2009 Gross Tonnes km***	**2008 Train km****	**2009 Train km****
	(per cent.)			
ČD Cargo.	92.28	88.77	87.10	79.54
OKD	3.14	5.18	2.15	3.56
Unipetrol Doprava	2.14	2.80	1.64	2.21
Viamont Cargo	0.50	0.75	0.47	0.62
TSS	0.30	0.50	1.07	1.38
Ostravská dopravní společnost	0.16	0.42	0.16	0.30
ČD	0.37	0.39	2.78	3.38
BF Logistics	0.16	0.19	0.20	0.23
RM LINES	0.05	0.18	0.02	0.12
Other carriers	0.90	0.82	4.41	8.66

Source: SŽDC Annual Report 2009

* *Gross ton kilometre is a product of gross weight of railway vehicles (traction units, railway carriages and other vehicles on own wheels) integrated in the train and distance travelled in kilometres.*

** *Train kilometre represents the distance travelled by train in kilometres.*

International Freight Market

According to the Union Internationale Des Chemins De Fer, ČD Cargo was the fourth largest railway freight transportation company in Europe in 2010 and the fifth largest in 2009, in either case based on tonnes carried. Only Deutsche Bahn, Polskie Koleje Państwowe S.A (PKP) and ÖBB transported a greater volume than ČD Cargo in 2010.

The table below shows Europe's largest railway freight transportation companies according to tonnes of freight carried:

Country	Carrier	Wagonload Freight Traffic Overall 2009	2010	
		(thousand tonnes carried)		*(percentage change)*
Germany	DB Schenker Rail AG (Deutsche Bahn)	340,981	415,406	21.8
Poland	PKP Cargo SA	110,062	128,035	16.3
Austria	OBB (Rail Cargo Austria + Rail Cargo Hungaria)	105,879	117,600	11.1
Czech Republic	ČD Cargo (without company consignments)	68,162	76,561	12.3
France	SNCF Fret	69,394	64,430	-7.2
Switzerland	SBB CFF FFS	49,367	50,042	1.4
Latvia	LDZ	53,679	49,163	-8.4
Lithuania	LG	42,669	48,061	12.6
Italy	FS	44,430	42,348	-4.7
Slovakia	ZSSK Cargo	33,790	38,610	14.3
Finland	VR	32,860	35,795	8.9
Estonia	EVR	...	29,632	
Turkey	TCDD	21,270	23,741	11.6
Spain	RENFE	16,562	16,064	-3.0

EU ACCESSION AND THE IMPACT ON THE CZECH RAILWAY INDUSTRY

As of May 2004, the Czech Republic acceded to the EU and effectively adopted guidelines on the interoperability of the trans-European high-speed and conventional railway system with a view to improving interconnection of the national railway network.

The railway network of the Czech Republic must comply with requirements for interoperability set out in Regulation No. 352/2004 Coll. on Operational and Technical interconnection of the European Railway System, the Government Regulation on technical requirements for operational and technical interconnection of the European Railway System No. 133/2005 Coll. and related Technical Specifications of Interoperability.

The basic principles of modernisation include:

- Introducing higher track speed on sufficiently long sections;
- Achieving track load class D4 UIC for the level of track speed of 120 km/h inclusive (i.e. building up the railway network complying with the set rolling stock load standards);
- Introducing structural gauge for loading gauge UIC GC and broader vehicles according to ČSN 73 6320 (i.e. building up the railway network complying with the set spatial structural standards for rolling stock transit);
- Ensuring requested path capacity at the currently defined optimised scope of the railway infrastructure (i.e. building up the railway network allowing for optimised railway network operation);
- Equipping lines with such a technological device that will provide full operation safety at the track speed of up to 160 km/h;
- Equipping railway stations with platforms in compliance with Regulations No. 177/1995 Coll. and 369/2001 Coll. (i.e. ensuring that the length, width, high and other technical parameters will

be in compliance with the standards set by Regulations No. 177/1995 Coll. and 369/2001 Coll and will allow for safe manoeuvring of persons, including disabled persons);

- Achieving sufficient effective length of rails at railway stations (i.e. building up station tracks in the length corresponding to the length of the rolling stock assigned for the particular railway track); and

- Improving the condition of level crossings with communications over land.

EUROPEAN FUNDING PROGRAMMES

Accession of the Czech Republic to the EU enabled the Czech Republic to apply for funding from the EU. From 2004 to 2006 SŽDC submitted four projects which were approved for a total of EUR 260 million of financing from the Cohesion Fund. For the current programming period between 2007 and 2013 EUR 5.77 billion has been allocated to the Czech Republic under the Operational Programme for Transport; this allocation represents approximately 22 per cent. of all railway financing for the Czech Republic until 2015, and is to be used to finance projects aimed primarily at modernisation, electrification and rationalisation of the railway network (i.e. implementation of safety and communication devices in order to increase safety of railway traffic and decrease the railway operating costs), as well as improving interoperability across the railway network within the Czech Republic.

EUR 2.19 billion has been earmarked from the Operational Programme for Transport to upgrade the trans-European transport network ("**TEN-T**") railway network including upgrading railway junctions, ensuring interoperability of existing railway lines, ensuring compliance with technical specifications for interoperability and developing the Telematics Systems. A further EUR 393 million has been earmarked from the Cohesion Fund to upgrade and develop the railway network outside of the TEN-T programme. SŽDC intends to continue using the TEN-T programme to modernise its rail network.

The European Regional Development Fund ("**ERDF**") for the modernisation of rail networks primarily finances investment projects and is designed for economically poorer regions. In 2009, SŽDC (in cooperation with the Polish company Dolnośląska Służba Dróg i Kolei), successfully obtained ERDF funding for a project called 'Revitalisation of the Szklarska Poręba – Harrachov railway track' to improve cross-border cooperation between the Czech Republic and Poland. SŽDC plans to continue using funds from the ERDF during the current programming period.

The most significant sources of funds for ČD are currently the Regional Operational Programmes which ČD intends to use when purchasing new rolling stock to be used in regional transport. Within these Regional Operational Programmes ČD is also applying to receive funds for modernisation of certain railway stations. ČD also successfully applied for a grant within the Operational Programme for the Environment for displacement of ecological damages in the area of the Brodek u Přerova station. The application was for an amount of approximately EUR 7.8 million, although a lesser amount may be received. ČD also participates in several projects within the EUR Framework Programme and via the Operational Programme for Transnational Cooperation.

STRATEGY TO IMPROVE THE COMPETITIVENESS OF CZECH REPUBLIC'S TRANSPORTATION SYSTEM

On 19 January 2011 the Ministry of Transport published a strategy for the development of the Czech Republic's transportation system entitled 'Superstrategy 2025'. Its objective was to define a long-term strategy for the transportation sector in the Czech Republic, including road, rail water and air transportation. The paper recognises the importance of a sound transportation network in the Czech Republic for strengthening the country's competitiveness within the EU and to bridge inter-regional disparities. However, due to the recent change in the Ministry of Transport, it cannot be ruled out that this document will be further revised or even disregarded.

OVERVIEW OF THE CZECH REPUBLIC

The Czech Republic is situated in the centre of Europe, bordering Germany to the west, Poland to the north, Slovakia to the east and Austria to the south. Its borders are mostly formed by forested mountain ranges and hills, except in the south-east where it shares lowlands with Austria and Slovakia. A developed road and rail network connects its two main regions, Bohemia and Moravia. The Czech Republic covers an area of approximately 78,886 square kilometres and its population is estimated to be approximately 10.5 million inhabitants.

The Czech Republic became a member of the North Atlantic Treaty Organisation ("**NATO**") on 12 March 1999 and a member of the EU on 1 May 2004.

As of the date of this prospectus the rating of the Czech Republic is "A1" with stable outlook (Moody's), "A" with positive outlook (S&P) and "A+" with positive outlook (Fitch).

Brief Overview of the Czech Republic's Economy

While ČD operates internationally, the vast majority of its revenues are generated within the Czech Republic. The Czech Republic has an open and export-driven economy with significant contribution to GDP from manufacturing. The Czech Republic had enjoyed a period of buoyant growth since its accession to the EU in 2004 until a drop in economic activity in 2009 of 4.1 per cent. amid the global financial crisis. The economic growth slowdown was predominantly driven by a decline in exports and a reduction in industrial activity. The economy resumed to 2.3 per cent. growth in 2010, underpinned by a rebound in industry sales of 9.3 per cent. year-on-year. The construction industry is yet to fully recover. Household consumption declined by 0.3 per cent. in 2009 and returned to growth of 0.4 per cent. in 2010.

The Czech Republic ran budget deficits of 5.3 per cent. and 4.3 per cent. in 2009 and 2010, respectively. The State debt measured by proportion to GDP equalled 32.5 per cent. and 36.6 per cent. in 2009 and 2010, respectively.

The table below shows key indicators for the Czech Republic economy between 2004 and 2010:

Indicator	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
				(per cent.)			
GDP(1)	4.5	6.3	6.8	6.1	2.5	-4.1	2.3
Final consumption expenditure	0.9	2.6	3.9	3.6	2.8	0.6	0.4
Gross capital formation expenditure(1)	9.1	-0.8	9.6	9.4	-2.8	-15.8	4.7
Gross fixed capital formation expenditure(1)	3.9	1.8	6.0	10.8	-1.5	-7.9	-4.6
Exports of goods and services(1)	20.7	11.6	15.8	15.0	6.0	-10.8	18.0
Imports of goods and services	17.9	5.0	14.3	14.3	4.7	-10.6	18.0
Industrial output(2)	16.1	6.9	8.5	14.1	-0.3	-15.9	9.3
Construction output(1)	8.8	5.2	6.0	7.1	0.0	-0.9	-7.6
Services - sales(1)	.	.	4.6	8.8	0.3	-9.8	-1.0
Agriculture - sales(1)	0.0	8.0	-3.7	-6.6	-3.8	8.8	-4.2
CPI(3)	2.8	1.9	2.5	2.8	6.3	1.0	1.5
Registered rate of unemployment (new methodology)	9.19	8.96	8.13	6.62	5.44	7.98	9.01
State budget balance/GDP	-3.3	-1.9	-3.0	-1.9	-0.5	-5.3	-4.3
General government debt/GDP	30.1	29.7	29.4	29.0	30.0	35.3	n/a
State debt/GDP	21.1	23.2	24.9	25.2	27.1	32.5	36.6
CZK/EUR exchange rate	31.90	29.78	28.34	27.76	24.94	26.45	25.29

Source: Czech Statistical office

(1) *Year-on-year, real terms.*
(2) *Year-on-year, current per cent.*
(3) *Year-on-year, average*

International Comparison

GDP per Capita in Purchasing Power Standard

The Czech Republic has a GDP per capita which is the highest of the non-Eurozone EU members in Central and Eastern Europe and higher than some Eurozone countries (as measured by GDP per capita expressed in Purchasing Power Standard). Please see the below table for the figures:

GDP per Capita in Purchasing Power Standard:

	2006	2007	2008	2009
	(per cent.)			
Czech Republic	77	80	80	82
Poland	52	54	56	61
Hungary	63	62	64	65
Slovakia	63	68	72	73
Slovenia	88	88	91	88
EU15	112	112	111	110

Source: Eurostat database, Czech Ministry of Finance

Note: Indexed to EU27 (100 per cent.)

Fiscal Balance

The Czech Republic maintains a low budget deficit relative to the Eurozone average for 2009 and 2010. In 2009, the general government deficit was lower than in most Eurozone countries (at CZK 214 billion which is approximately 5.9 per cent. of GDP). Please see the below table for the figures:

Budget Deficit as a per cent. of GDP:

	2009	2010
	(per cent.)	
Czech Republic	-5.9	-4.7
Poland	-7.3	-7.9
Hungary	-4.5	-4.2
Slovakia	-8.0	-7.9
Slovenia	-6.0	-5.6
Euro area	-6.3	-6.0

Source: Eurostat database

General Government Debt

The Czech Republic has low government indebtedness compared to the Eurozone average for 2009 and 2010. According to estimates by the annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs, for the year ended 31 December 2010 general government debt in the Czech Republic will be approximately 39.8 per cent. of GDP, below the expected Eurozone average of 84.7 per cent. of GDP. Please see the below table for the figures:

General Government Debt as a per cent. of GDP:

	2009	2010
	(per cent.)	
Czech Republic	35.3	38.5
Poland	50.9	55.0
Hungary	78.4	80.2
Slovakia	35.4	41.0
Slovenia	35.2	38.0
Euro area	79.4	85.3

Source: Eurostat database

Impact of the economic downturn on ČD and recent developments

ČD saw a decline in volumes of passenger-kilometres of 4.0 per cent. in 2009 compared to 2008 while passenger kilometres in 2010 increased by 1.4 per cent. compared to 2009.

Freight transport declined by 20.8 per cent. in volume transported in 2009 (including empty wagons) as compared to 2008, showing a high correlation to the general decline in industrial activity. The major decline within freight transport came from the iron and machinery (-36 per cent.), buildings and materials

(-28 per cent.), automotives (-24 per cent.), chemicals and liquid fuels (-23 per cent.) coal and coke (-22 per cent.) and wood and paper materials (-18 per cent.) segments.

In 2010, freight transport measured by volume transported (including empty wagons) increased by 12 per cent. compared to 2009 (mainly driven by iron and machinery, which increased by 25 per cent., wood and paper materials, which increased by13 per cent., and coal and coke , which increased by11 per cent.).

THE REGULATORY FRAMEWORK

Railway transport laws in the EU

Council Directive 91/440/EEC of 29 July 1991 on the development of the Community's railways is the main piece of legislation that provides the framework for open access to operations on railways in the EU. It was further extended by Directive 95/18/EC of 19 June 1995 on the licensing of railway undertakings and Directive 2001/14/EC of the European Parliament and of the Council of 26 February 2001 on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification.

In the years following the adoption of the above-mentioned directives the railway industry was further regulated by a new series of directives and regulations which are referred to as "railway packages". The First and Second Railway Packages, adopted in 2001 and 2004 respectively, cover issues involving interoperation on the railway system, improvement of competition, improvement of the efficiency of infrastructure capacity, as well as the liberalisation of freight transportation services and safety concerns within the industry.

The Second Railway Package of 2004, in particular Directive 2004/51/EC of 29 April 2004 amending Council Directive 91/440/EEC on the development of the Community's railways, is of the most significance for providers of freight transportation services as it imposed upon the Member States an obligation to grant, on equitable conditions, access to the entire rail network and the infrastructure for the purpose of operating rail freight services. In addition, Directive 2004/49/EC of the European Parliament and of the Council of 29 April 2004 on safety on the Community's railways and amending Council Directive 95/18/EC on the licensing of railway undertakings and Directive 2001/14/EC on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification, aim to ensure the development and improvement of safety on the Community's railways and improved access to the market for rail transport services.

The Third Railway Package of 2007 is of the most significance for providers of passenger transportation services and deals with the liberalisation of international passenger transportation services, rail passenger rights and obligations, and certification of train drivers. In particular, Regulation (EC) No. 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos. 1191/69 and 1107/70 provides for the conditions under which a public authority from a Member State, in imposing or contracting public service obligations in the field of public passenger transport, compensates public service operators for the costs incurred and/or grants exclusive rights in return for the performance of public service obligations. Public service obligations are defined as requirements determined by a competent authority in order to ensure the provision of public passenger transport services which are in the general interest but which an operator, if considering its own interests, would not provide, or would not provide to the same extent or under the same conditions without reward. Public service obligations are to be performed within the framework of public service contracts. Public service obligations aimed at establishing maximum tariffs for all passengers or for certain categories of passengers may be subject to the general rules, i.e. measures applicable without discrimination to all public passenger transport services of the same type in a given geographical area for which a relevant competent authority is responsible.

Regulation 1370/2007 provides for the mandatory content of public service contracts, which includes a clear definition of the public service obligations, the geographical areas concerned, the basis for the calculation of the compensation payment, the nature and extent of any exclusive rights granted, and the cost allocation. The manner in which an operator is compensated or is granted any exclusive rights must ensure such operator does not receive greater benefit than that which is appropriate under applicable law. The revenue allocation should be determined both in the public service contract and the general rules for the operation of public transport contained in Regulation 1370/2007. Article 4 provides that the term of public service contracts with regard to the railway industry may not exceed 15 years. This period may be extended by a maximum of 50 per cent. if the public service operator provides assets which are significant in relation to the overall assets needed to carry out the passenger transport services covered by the public service contract and are linked predominantly to such services, or if it is justified by the costs deriving from a given geographical situation. Regulation 1370/2007 allows for longer terms of contracts awarded in a fair competitive tender procedure if it is justified by the amortisation of capital in relation to nonstandard infrastructure, rolling stock or vehicle investments.

Public service contracts within the rail industry are to be awarded in accordance with the rules laid down in Regulation 1370/2007, on the basis of a competitive tender procedure except in specified cases, including, among others, a direct award by a Member State authority of a rail transport public service contract. The term of public service contracts concerning rail transport which were awarded directly is generally limited to ten years and the major provisions of such contracts should be made public by the authority which awarded them. The above rules of awarding public service contracts are to be complied with from 3 December 2019. Until that date transition measures are to be taken by the Member States. Regulation 1370/2007 describes the circumstances that may impact the term of contracts executed prior to 3 December 2009, the date on which Regulation 1370/2007 entered into force. While contracts entered into before 26 July 2000 on the basis of a fair competitive tender procedure may continue until they expire, contracts entered into before 26 July 2000 on the basis of a procedure other than a fair competitive tender procedure and contracts entered into between 26 July 2000 and 3 December 2009 on the basis of a fair competitive tender procedure may continue until they expire, however no longer than 30 years. Contracts entered into between 26 July 2000 and 3 December 2009 on the basis of a procedure other than a fair competitive tender procedure may continue until they expire provided that their term is comparable to the term specified in Article 4 of Regulation 1370/2007.

An annex to Regulation 1370/2007 provides for the manner of calculation of the compensation connected with the general rule or public service contracts awarded directly. The amount of such compensation cannot exceed the net financial result which is calculated pursuant to the following formula: costs incurred in relation to a public service obligation imposed by the competent authority set out in a public service contract and/or in the general rule, minus any positive financial results generated under such public service obligation, minus revenues from tariffs or any other revenues generated in the performance of the public service obligation, plus reasonable profit, equals the net financial result. Reasonable profit is the rate of return on capital that is standard for the sector in a given Member State and that reflects the risk incurred, or its absence, due to the intervention of public authorities. To increase transparency, a public service operator that pursues other activities in addition to performing public transport service obligations for which it is compensated must establish a separate account for such activities.

Railway transport laws in the Czech Republic

The main legal regulation relating to rail transport in the Czech Republic is the Railway Act. This Act regulates the terms for the construction of railway tracks and structures thereon, the conditions for operating railway tracks, for operating rail transport on railway tracks, as well as the related rights and obligations of individuals and legal entities, the performance of public administration and State supervision in connection with rail transport.

The legal position of ČD is regulated by Act (77/2002 Coll.) on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act (266/1994 Coll.), as amended, and the State Enterprise Act (77/1997 Coll.) as amended, which regulates the management and activities of ČD, including voting rights of the State as the shareholder of ČD and business activities carried out by ČD, and the establishment and activities of SŽDC, as the legal successors of the State organization České dráhy.

Regulation No. 1370/2007 is reflected in Act (194/2010 Coll.) on Public Passenger Transport Services and on the amendment of other laws, as amended, which regulates the procedure of the State, regions and municipalities in relation to arranging for rail and road public passenger transport services.

In addition, there are several Government decrees and regulations of the Czech Ministry of Transport, which, among others, provide for transportation rules for public railroad freight transport, rules for the health and professional qualifications of persons operating railways and rail transport, transportation rules for public passenger transport by rail and by road, safety of operation of tracks and rail transport.

Anti-Trust Regulations

The activities of ČD and its Group which impair or could impair competition in the Czech Republic or may affect trade between the Member States of the EU are subject to the general principles of Czech and EU competition laws, respectively.

In this regard, companies and other market participants occupying a dominant position in the relevant market, such as ČD and its Group, may not abuse their position as stipulated by of the Act (143/2001

Coll.) on the Protection of Competition, as amended (the "**Czech Competition Act**") and by the Treaty on the Functioning of the EU. Such abuse may, in particular, consist of imposing unfair prices or other trading conditions, limiting production or technical development, discriminating between customers or suppliers (thereby placing them at a competitive disadvantage) or making the conclusion of contracts subject to the acceptance by the other parties of supplementary unrelated obligations.

In addition, market participants (such as ČD and the companies within its Group) may not enter into agreements or engage in concerted practices which have as their object or effect the prevention, restriction or distortion of competition within the Czech market or internal market of the EU as stipulated by the Czech Competition Act and the Treaty on the Functioning of the EU. In this regard, the laws particularly prohibit market participants from fixing prices or other trading conditions, limiting or controlling production, markets, technical development, or investments, the share market or source of supply, or discriminating against other parties.

ČD and the companies within its Group are also subject to the EU state aid rules which prohibit them from receiving any state or public aid which would distort or threaten to distort competition by favouring them or the production of certain goods unless the aid falls within one of the exemptions set out in the Treaty on the Functioning of the EU. There is also sector specific EU legislation which regulates certain aspects of this general principle for the railways sector. For example, the EU legislation stipulates the conditions under which the Czech Republic may compensate ČD for burdens which are, in other sectors, normally borne by the State (Regulation (EEC) No 1192/69 of the Council of 26 June 1969 on common rules for the normalisation of the accounts of railway undertakings). Similarly, the EU legislation also specifies a list of cases in which ČD, as an "undertaking entrusted with the operation of services of general economic interest", can receive state aid in the form of compensation for fulfilling these obligations (Regulation 1370/2007).

Public Procurement Laws

Where ČD (or a subsidiary such as ČD Cargo) awards contracts above a certain value, it is subject to the Public Procurement Act. Generally, pursuant to the Public Procurement Act, ČD may enter into agreements providing for the delivery of goods or services only after the completion of one of the public procurement procedures specified in the Public Procurement Act. Any agreement concluded contrary to the Public Procurement Act before 1 January 2010 is unconditionally invalid as a matter of law. On 1 January 2010, an amendment to the Public Procurement Act implemented a conditional invalidity where invalidity is caused by non-compliance with the procedures set out by the Public Procurement Act. In this case, the contract is only invalid where the Czech Competition Office as the authority with the power to review the process for awarding public contracts prohibits the performance of the contract in question.

Importantly, public procurement rules may also apply to the awarding of contracts to ČD or companies within its Group. For example, where a competent authority decides to grant ČD or another railway operator an exclusive right and/or compensation in return for the discharge of public service obligations, it must do so within the framework of a public service contract while following specific public procurement rules stipulated in Regulation 1370/2007.

Labour Regulation/Union Laws

The principal source of law regulating employment relationships is the Labour Code, which covers all areas of individual employment relationships between an employer and an employee, including for example equal treatment and the prohibition of discrimination, access to information, agency employment, working conditions, health and safety at work, liability for damages and dismissal. The Labour Code only contains a general prohibition of discrimination. The Act (198/2009 Coll.) on Anti-discrimination, as amended, contains more specific provisions on equal treatment and the prohibition of discrimination. In general, the Labour Code allows for contractual freedom of parties within the limits set by the regulatory framework; it is therefore not possible to contract out of statutory employee protection.

The institutional framework for and the functioning of the labour market in the Czech Republic are regulated by the Act (435/2004 Coll.) on Employment, as amended, which covers, for example, the qualification criteria for unemployment benefits, employment of foreigners and special provisions of employment relating to disabled persons.

Although the Labour Code contains basic provisions regarding trade unions, collective labour law rules, in particular the collective bargaining procedure, are contained in the Act (2/1991 Coll.) on collective bargaining, as amended. Basically, collective agreements can be negotiated on two levels, either as house collective agreements (binding on a single employer and the trade union operating with that employer), or as sectoral collective agreements (binding on all employers and trade unions operating with employers in a whole economic sector). Individual employee entitlements arising from collective agreements are legally enforceable in the same manner as other rights arising from individual employment contracts.

TAXATION

Czech Taxation

The following is a general description of certain Czech Republic tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in this country or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Czech Republic of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Interest

Provided that the Notes qualify as bonds issued outside of the Czech Republic, the interest income from the Notes realised by an individual who is not for tax purposes treated as a resident of the Czech Republic or by a person other than an individual which is not for tax purposes treated as a resident of the Czech Republic (together, "**Non-Czech Holders**") will be exempt from taxation in the Czech Republic and no withholding or deduction for or on account of Czech tax will be required to be made by the Issuer on any payment of interest to the Non-Czech Holders.

Interest income from the Notes realised by an individual who is for tax purposes treated as a resident of the Czech Republic or by a person other than an individual which is for tax purposes treated as a resident of the Czech Republic or by an organisational unit of the Czech state (together, "**Czech Holders**") is not subject to any Czech withholding tax and is payable by the Issuer to the Czech Holders free from any deduction or withholding for or on account of Czech tax. However, no exemption from tax applies and the Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis (in the case of Czech Holders who are individuals this reporting obligation as well as the fact whether the interest income shall be declared on a cash or an accrual basis will depend on individual circumstances in each case). An ordinary Czech corporate (the rate of 19 per cent.) or personal (the rate of 15 per cent.) income tax, as applicable, is payable.

Capital Gains

Income realised by a Non-Czech Holder, not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to another Non-Czech Holder, not acquiring the Notes through a permanent establishment in the Czech Republic, will not be subject to Czech income tax.

Income realised by the Non-Czech Holders, not holding the Notes through a permanent establishment in the Czech Republic from the sale of the Notes to (a) Czech Holder or (b) a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic will be subject to taxation in the Czech Republic unless:

(i) the Non-Czech Holder realising that income is resident in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country; or

(ii) in the case of the Non-Czech Holders who are individuals, such income is exempt from tax (see below conditions of exemption from tax which is available to Holders of the Notes who are individuals).

Income realised by the Non-Czech Holders, holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes will generally be subject to taxation in the Czech Republic.

If income realised by a Non-Czech Holder from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), the Czech Holder or a permanent establishment in the Czech Republic of a Non-Czech Holder paying the income will be obliged to withhold an amount of 1 per cent. on a gross basis representing tax security, unless the Non-Czech Holder is for tax purposes a resident of a country being a member of the European Union or the European Economic Area, or unless such obligation is waived pursuant to a decision of Czech tax authorities. This tax security could be, subsequently, credited against the final Czech tax liability of the Non-Czech Holder self-assessed in its annual Czech tax return.

Income realised by the Czech Holders from the sale of the Notes is generally subject to Czech corporate or personal income tax at the above mentioned rates. Income realised by a Czech Holder, who is an individual, from the sale of the Notes is exempt from Czech personal income tax provided that the holding period of the Notes exceeded six months and the Notes have not been held as part of business property of such individual, and, if so, the Notes will not be sold prior to the expiry of a six month period following the termination of that individual's business activities. For Czech Holders who keep books and hold the Notes as part of their business property (generally all legal entities and certain individuals), losses upon a sale of the Notes will generally be tax deductible. By contrast, losses incurred by Czech Holders who are individuals (other than those mentioned in the previous sentence) are in most cases non-deductible.

Czech Holders that are subject to Czech GAAP for entrepreneurs or to Czech GAAP for financial institutions may be required to revaluate the Notes to fair value for accounting purposes, whereby the unrealized gains and losses would be accounted for as revenue or expense, respectively. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes.

Other Taxes

No Czech stamp duty, registration, transfer or similar taxes will be payable in connection with the acquisition, ownership, sale or disposal of the Notes by Czech Holders or Non-Czech Holders.

Luxembourg Taxation

The following is a general description of certain Luxembourg tax considerations relating to the Notes. It specifically contains information on taxes on the income from the Notes withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this prospectus. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

All payments of interest and principal by the Luxembourg Paying Agent under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

(i) the application of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive (Council Directive 2003/48/EC) and providing for the possible application of a withholding tax (15 per cent. from 1 July 2005 to 30 June 2008, 20 per cent. from 1 July 2008 to 30 June 2011 and 35 per cent. from 1 July 2011) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "residual entities") in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive (see, paragraph "*EU Savings Tax Directive*" above);

(ii) the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005 which has introduced a 10 per cent. final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive). This law should apply to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Erste Group Bank AG and Société Générale, (the "**Joint Lead Managers**") have, in a subscription agreement dated 22 June 2011 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.479 per cent. of their principal amount less a combined management and underwriting commission. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United Kingdom

Each Joint Lead Manager has further represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Czech Republic

(a) **No Notes issued in Czech Republic** None of the Notes has been issued or will be issued in the Czech Republic within the meaning of the Czech Act on Bonds No. 190/2004 Coll., as amended (the "**Bonds Act**") and no application for an approval of the terms and conditions of the issue of any of the Notes has been filed with the Czech National Bank. The Issuer will, however, notify the Czech National Bank in accordance with the Bonds Act.

(b) **No public offering of the Notes** No public offering of the Notes has been made or will be made within the meaning of the Czech Act on Conducting Business on the Capital Market No. 256/2004 Coll., as amended (the "**Capital Market Act**") and no application for an approval of a prospectus for any of the Notes has been filed with the Czech National Bank. Under the Capital Market Act, "public offering" means any communication to a wider group of persons containing information on the investment securities to be offered and the terms of their acquisition, which is sufficient for an investor to make a decision to purchase or subscribe to these investment securities.

(c) **No admission to trading on regulated market** None of the Notes has, based on an application by the Issuer, been admitted or will be admitted to trading on any regulated market in the Czech Republic and no application for approval of a prospectus for any of the Notes has been filed with the Czech National Bank and no application for admission of any of the Notes to trading on such regulated market in the Czech Republic has been filed with any organiser of a regulated market in the Czech Republic.

Each Joint Lead Manager has represented, warranted and undertaken that (i) it has taken and will take no action which would result in an approval of the Czech National Bank (or any organiser of a regulated market in the Czech Republic) being required in respect of the Notes in accordance with the Bonds Act or the Capital Market Act and (ii) it has complied and will comply with all other applicable provisions (if any) of the Bonds Act, the Capital Market Act and other laws of the Czech Republic (as they may be further amended or superseded from time to time) with respect to anything done by it in relation to the Notes in, from or otherwise involving the Czech Republic.

General

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this prospectus or any other offering material relating to the Notes. Persons into whose hands this prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 14 February 2011 and a resolution of the Supervisory Board of the Issuer dated 23 February 2011.

Listing and admission to trading

2. Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market.

   The total expenses related to the admission to trading of the Notes are expected to be approximately EUR 6,350.

Legal and Arbitration Proceedings

3. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this prospectus, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

Significant/Material Change

4. Since 31 December 2010 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries nor any significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

Auditors

5. The consolidated financial statements prepared by the Issuer in accordance with IFRS have been audited without qualification for the years ended 31 December 2009 and 2010 by Deloitte Audit s.r.o., Nile House, Karolinská 654/2, 18600 Prague 8 - Karlin, Czech Republic, an audit company registered with the Czech Chamber of Auditors.

Documents on Display

6. Copies of the following documents (together with English translations thereof) may be inspected during normal business hours at the registered address of the Issuer for 12 months from the date of this prospectus:

   (a) the Deed of Incorporation and Articles of Association of the Issuer;

   (b) Consolidated Financial Statements prepared in accordance with the International Financial Reporting Standards as adopted by the EU;

   (c) Unconsolidated Statutory Financial Statements of the Issuer prepared in accordance with accounting regulations applicable in the Czech Republic;

   (d) Unconsolidated Statutory Financial Statements of ČD Cargo prepared in accordance with accounting regulations applicable in the Czech Republic;

   (e) the prospectus;

   (f) the Subscription Agreement;

   (g) the Fiscal Agency Agreement; and

   (h) the Deed of Covenant.

   A copy of the Prospectus is available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Yield

7. On the basis of the issue price of the Notes of 99.479 per cent. of their principal amount, the gross real yield of the Notes is 4.619 per cent. on an annual basis.

Legend Concerning US Persons

8. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.

ISIN and Common Code

9. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0641963839 and the common code is 064196383.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

Contents

České dráhy, a.s.

**CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH IFRS
AS ADOPTED BY THE EU
AND INDEPENDENT AUDITOR'S REPORT**

AS OF 31 DECEMBER 2010

Deloitte.

Deloitte Audit s.r.o.
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Registered at the Municipal Court in Prague, Section C, File 24349
IČ: 49620592
DIČ: CZ49620592

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of České dráhy, a.s.

Having its registered office at: Nábřeží L. Svobody 1222, Praha 1, 110 15
Identification number: 70994226

We have audited the accompanying consolidated financial statements of České dráhy, a.s. and subsidiaries, which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of České dráhy, a.s. and subsidiaries as at 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 15 April 2011

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. certificate no. 79	Václav Loubek certificate no. 2037
Deloitte	

Consolidated Financial Statements for the Year Ended 31 December 2010

prepared under IFRS as adopted by the EU

Name of the Company:	České dráhy, a.s.
Registered Office:	Nábřeží L. Svobody 1222, 110 15 Praha 1
Legal Status:	Joint Stock Company
Corporate ID:	70994226

Components of the Consolidated Financial Statements:

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

INCOME STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF CHANGES IN EQUITY

CASH FLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements were prepared on 15 April 2011.

Statutory body of the reporting entity:	Signature
Petr Žaluda, Chairman of the Board of Directors and CEO	

České dráhy, a.s.

Consolidated Financial Statements for the Year Ended 31 December 2010

prepared under IFRS as adopted by the EU

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2010

		31 Dec 2010 CZK thousand	31 Dec 2009 CZK thousand*)	31 Dec 2008 CZK thousand
Property, plant and equipment	16	65 344 832	59 274 154	56 154 620
Investment property	17	2 100 440	2 204 523	2 271 001
Intangible assets	18	607 538	729 124	800 394
Investments in associates	19	116 946	115 367	115 885
Deferred tax asset	13	0	10 242	0
Trade receivables	21	10 098	24 181	2 153
Other financial assets	22	626 571	516 543	534 406
Other assets	23	184 529	232 827	46 331
Total non-current assets		**68 990 954**	**63 106 961**	**59 924 790**
Inventories	20	1 330 580	1 279 736	1 273 837
Trade receivables	21	3 484 872	3 760 040	5 264 167
Tax receivables		67 789	13 418	20 203
Other financial assets	22	227 557	87 377	71 261
Other assets	23	784 591	736 754	996 002
Cash and cash equivalents	31	719 461	2 333 396	4 805 833
Assets held for sale	15	187 768	1 349 720	94 274
Total current assets		**6 802 618**	**9 560 441**	**12 525 577**
TOTAL ASSETS		**75 793 572**	**72 667 402**	**72 450 367**
Share capital	24	20 000 000	20 000 000	20 000 000
Reserve and other funds	24	16 567 630	16 008 086	15 456 667
Retained earnings		4 481 361	5 428 568	8 193 239
Equity attributable to equity holders of the parent company		**41 048 991**	**41 436 654**	**43 649 906**
Non-controlling interests		840 081	1 294 634	1 258 578
Total equity		**41 889 072**	**42 731 288**	**44 908 484**
Loans and borrowings	25	12 467 085	11 681 990	9 059 413
Deferred tax liability	13	98 516	56 800	234 267
Provisions	26	537 467	573 437	370 644
Other financial liabilities	28	1 219 897	2 101 072	1 623 964
Other liabilities	29	89 957	101 260	106 876
Total non-current payables		**14 412 922**	**14 514 559**	**11 395 164**
Trade payables	27	8 133 517	8 307 417	8 116 944
Loans and borrowings	25	6 044 566	1 985 773	2 445 235
Tax payables		0	7 989	130 838
Provisions	26	813 862	337 781	402 293
Other financial payables	28	237 314	387 590	1 415 961
Other payables	29	4 262 319	4 086 446	3 635 448
Payables arising from assets held for sale	15	0	308 559	0
Total current payables		**19 491 578**	**15 421 555**	**16 146 719**
TOTAL LIABILITIES		**75 793 572**	**72 667 402**	**72 450 367**

*) Restated, refer to Note 25

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

		Year ended 31 Dec 2010 CZK thousand	Year ended 31 Dec 2009 CZK thousand
CONTINUING OPERATIONS			
Revenue from principal operations	5	37 795 523	37 115 833
Other operating income	6	3 204 859	2 972 574
Purchased consumables and services	7	-17 470 473	-16 723 614
Employee benefit costs	8	-18 341 248	-19 013 021
Depreciation and amortisation	9	-5 677 323	-6 701 942
Other operating losses, net	10	-624 425	-368 033
Profit (loss) before interest and tax		**-1 113 087**	**-2 718 203**
Financial expenses	11	-358 920	-357 756
Other gains, net	12	386 588	220 230
Share of income of associates		4 350	4 325
Loss before tax		**-1 081 069**	**-2 851 404**
Income tax expense	13	42 541	188 947
Loss for the period from continuing operations		**-1 038 528**	**-2 662 457**
DISCONTINUED OPERATIONS			
Profit from discontinued operations	15	98 481	95 836
Loss for the year		**-940 047**	**-2 566 621**
Attributable to equity holders of the parent company		-941 916	-2 615 417
Attributable to non-controlling interests		1 869	48 796

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Year ended 31 Dec 2010 CZK thousand	Year ended 31 Dec 2009 CZK thousand
Loss for the year	-940 047	-2 566 621
Cash flow hedging	660 477	518 981
Relating income tax	-107 230	-114 296
Other comprehensive income for the year, net of tax	**553 247**	**404 685**
Total comprehensive loss for the year	**-386 800**	**- 2 161 936**
Attributable to equity holders of the parent company	-388 669	- 2 210 732
Attributable to non-controlling interests	1 869	48 796

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital	Reserve and other funds	Retained earnings	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand
Balance at 31 Dec 2008	**20 000 000**	**15 456 667**	**8 193 239**	**43 649 906**	**1 258 578**	**44 908 484**
Profit (loss) for the year	0	0	-2 615 417	-2 615 417	48 796	-2 566 621
Other comprehensive income for the year, net of tax	0	404 685	0	404 685	0	404 685
Allocation to the reserve fund	0	148 744	-148 744	0	0	0
Dividends paid	0	0	-510	-510	-12 740	-13 250
Other	0	-2 010	0	-2 010	0	- 2 010
Balance at 31 December 2009	**20 000 000**	**16 008 086**	**5 428 568**	**41 436 654**	**1 294 634**	**42 731 288**
Profit (loss) for the year	0	0	-941 916	-941 916	1 869	-940 047
Other comprehensive income for the year, net of tax	0	553 247	0	553 247	0	553 247
Allocation to the reserve fund	0	5 291	-5 291	0	0	0
Other	0	1 006	0	1 006	0	1006
Sale of TSS	0	0	0	0	-456 422	-456 422
Balance at 31 December 2010	**20 000 000**	**16 567 630**	**4 481 361**	**41 048 991**	**840 081**	**41 889 072**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

	Year ended 31 Dec 2010 CZK thousand	Year ended 31 Dec 2009 CZK thousand
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year before tax	-982 588	-2 755 568
Dividend income	-37 351	-38 859
Financial expenses	358 920	357 756
Profit from the sale and disposal of non-current assets	-520 930	-641 323
Depreciation and amortisation of non-current assets	5 677 323	6 701 942
Impairment of non-current assets	-212 826	-414 975
Impairment of trade receivables	27 025	85 925
Foreign exchange rate gains	-343 947	-89 046
Other	-2 758	-6 777
Cash flow from operating activities before changes in working capital	**3 962 868**	**3 199 075**
Decrease (increase) in trade receivables	262 311	1 344 071
Decrease (increase) in inventories	-31 118	-2 096
Decrease (increase) in other assets	-248 719	-1 189 974
Increase (decrease) in trade payables	-126 766	204 789
Increase (decrease) in provisions	440 111	138 281
Increase (decrease) in other payables	-544 381	468 229
Total changes in working capital	**-248 562**	**963 300**
Cash flows from operating activities	**3 714 306**	**4 162 375**
Interest paid	-352 480	-345 064
Income tax paid	-76 452	-138 131
Net cash flows from operating activities	**3 285 374**	**3 679 180**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	-11 901 211	-9 975 518
Proceeds from disposal of property, plant and equipment	1 460 029	1 695 090
Payments for investment property	-86 408	-13 530
Net cash flows on disposal of a subsidiary	600 400	4 000
Costs of acquisition of intangible assets	-212 420	-54 052
Received interest	15 189	19 429
Received dividends	37 351	38 859
Net cash flows used in investment activities	**-10 087 070**	**-8 285 722**

	Year ended 31 Dec 2010 CZK thousand	Year ended 31 Dec 2009 CZK thousand
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings	8 069 951	6 029 635
Repayments of loans and borrowings	-2 882 190	-3 895 530
Net cash flow from financing activities	**5 187 761**	**2 134 105**
Net (decrease) increase in cash and cash equivalents	**-1 613 935**	**-2 472 437**
Cash and cash equivalents at the beginning of the reporting period	2 333 396	4 805 833
Cash and cash equivalents at the end of the reporting period	**719 461**	**2 333 396**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 GENERAL INFORMATION

1.1 General Information

On the basis of Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended, České dráhy, a. s. (the 'Company' or 'ČD') was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Company and the state organisation Railway Route Administration ('SŽDC') were formed as its legal successors. As of that date, the Company was recorded in the Register of Companies.

The sole shareholder of the Company is the Czech Republic. The Company's share capital is CZK 20,000,000 thousand. The Company's registered office is located at nábř. L. Svobody 1222, Prague 1.

The consolidated financial statements have been prepared as of and for the year ended 31 December 2010. The reporting period is the calendar year, i.e. from 1 January 2010 to 31 December 2010.

1.2 Principal Operations

The Company has been principally engaged in operating railway passenger transportation. The assets comprising the railway routes are in the ownership of the State, not the Company. The right of management of these assets rests with SŽDC. SŽDC secures the operability of the railway route, ČD is engaged in the servicing of the railway route.

1.3 Organisational Structure of the Parent Company

The Parent Company is organised into sections overseen by the Chief Executive Officer (CEO) or Deputy CEOs, being: the section of the Company's CEO and sections of the Company's Deputies CEO for Human Resources, Finance, Passenger Transportation, Operations, Administration of Assets and Sales and Marketing.

1.4 Bodies of the Parent Company

The Parent Company's bodies include the General Meeting, Board of Directors, Supervisory Board and Audit Committee. The General Meeting is the supreme body of the Company. The sole shareholder of the Company is the State which exercises the rights of the General Meeting through the Steering Committee.

The composition of Parent Company's Bodies as of 31 December 2010:

Steering Committee	
Chairman	Radek Šmerda
Vice Chairman	Jakub Hodinář
Member	Lukáš Hampl
Member	Michael Hrbata
Member	Michal Janeba
Member	Miloslav Müller
Member	Petr Polák

Through its Resolution No. 582 dated 11 August 2010, the Government of the Czech Republic changed the composition of the Company's Steering Committee. The Government revoked the authorisation for activity in the Steering Committee for Roman Boček, Chairman of the Steering Committee, and Pavel Škvára, Vice Chairman of the Steering Committee, and Eduard Havel, Bohumil Haase and Miroslav Kalous, members of the Steering Committee, and authorised Radek Šmerda to be the Chairman of the Steering Committee, Jakub Hodinář to be the Vice Chairman of the Steering Committee and Lukáš Hampl, Michael Hrbata and Michal Janeba to be members of the Steering Committee with effect from 12 August 2010.

Board of Directors	
Chairman	Petr Žaluda
Member	Antonín Blažek
Member	Michal Nebeský
Member	Jiří Kolář
Member	Milan Matzenauer

Supervisory Board	
Chairman	Lukáš Hampl
Member	Jan Bitter
Member	Michael Hrbata
Member	Antonín Leitgeb
Member	Miroslav Nádvorník
Member	Jaroslav Palas
Member	Zdeněk Prosek
Member	Radek Šmerda
Member	Vladislav Vokoun

At its meeting held on 4 March 2010, the Steering Committee of the Company appointed Jaroslav Palas a member of the Supervisory Board.

At its meeting held on 15 September 2010, the Steering Committee approved a written notice of resignation of Jarosalv Král from the position of the Chairman and member of the Supervisory Board, recalled members of the Supervisory Board Karel Březina, Tomáš Chalánek and Pavel Škvára and appointed members of the Supervisory Board Lukáš Hampl, Michael Hrbata, Miroslav Nádvorník and Radek Šmerda with effect from 16 September 2010. At its meeting held on 8 October 2010, the Supervisory Board appointed Lukáš Hampl the Chairman of the Supervisory Board.

Audit Committee	
Chairman	Miroslav Zámečník
Member	Michael Hrbata
Member	Zdeněk Prosek

As of 30 November 2010, Roman Boček resigned from the position of a member of the Audit Committee. The Audit Committee appointed Michael Hrbata a member of the Audit Committee.

As part of implementing the Corporate Governance project, the Company established the Risk Management Committee. The Committee is a permanent advisory body of the Board of Directors.

Risk Management Committee	
Chairman	Petr Vohralík
Member	Michal Nebeský
Member	Jaroslav Král, CSc
Member	Antonín Blažek
Member	Milan Matzenauer

1.5 Definition of the Consolidation Group

1.5.1 Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage*)	Degree of influence
České dráhy, a. s.	Prague 1, Nábřeží L.Svobody 12/1222	70994226		
Traťová strojní společnost, a. s. **)	Hradec Králové Jičínská 1605	27467295	0	Control
ČD - Telematika a. s.	Prague 3, Pernerova 2819/2a	61459445	59.31	Control
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	27257258	100	Control
DPOV, a. s.	Přerov, Husova 635/1b	27786331	100	Control
JLV, a. s.	Prague 4, Chodovská 3/228,	45272298	38.79	Significant
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control

*) Ownership percentage is the same as the voting rights percentage
**) With respect to Traťová strojní společnost, a.s., only transactions as of 18 August 2010 were included in the consolidation.

The consolidation group is hereinafter referred to as the "Group".

The following table shows the information on entities included in consolidation in which the Parent Company exercises control (subsidiaries) as of 31 December 2010:

Name of the entity	Principal activities
ČD - Telematika a. s.	Provision of telecommunication services, software and advisory services
Výzkumný Ústav Železniční, a. s.	Research, development and testing of rail vehicles and infrastructure facilities
DPOV, a. s.	Inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a. s.	Freight railway transportation

The following table shows the information on entities included in consolidation in which the Parent Company exercises significant influence (associates) as of 31 December 2010:

Name of the entity	Principal activities
JLV, a. s.	Provision of accommodation and catering services

Pursuant to the registration in the Register of Companies on 28 December 2009, Jídelní a lůžkové vozy, a.s. was renamed to JLV, a.s.

1.5.2 Changes in the Composition of the Group

In 2010, the 51% equity investment in Traťová strojní společnost, a.s. owned by České dráhy, a.s. was sold to Ostravské opravny strojírny, s.r.o. The ownership title to the equity interest passed to the new owner on 18 August 2010.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2 Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments.

2.3 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. The total comprehensive income is allocated to owners of the Company and non-controlling interests even if the result is a negative balance of non-controlling interests.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.4 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods and other assets is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership.

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service contract (eg period of validity of long-term travel documents).

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

2.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.5.1 The Group as a Lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.5.2 The Group as a Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.6 Foreign Currencies

Given the economic substance of transactions and the environment in which the Group operates, the functional and presentation currency used is the Czech crown (CZK).

Transactions denominated in foreign currencies are recorded at the ruling fixed exchange rate announced by the Czech National Bank. If the ruling exchange rate does not significantly change over time, the Company uses the foreign exchange rate promulgated as of the first day of the period for a longer period of time – usually one month. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss except for exchange differences on transactions entered into in order to hedge certain foreign currency risks. Such foreign exchange rate differences are recognised directly in equity and reclassified to profit or loss when the hedged underlying item is settled.

2.7 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.8 Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a reduced cost of non-current assets in the statement of financial position.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group without future related costs are recognised in profit or loss in the period in which they become receivable.

2.9 Employee Benefit Costs

Employee benefit costs predominantly include payroll costs, payments of the employer portion of statutory health insurance, social security, pension insurance and costs of other employee benefits resulting from the collective agreement.

The employee benefit obligations and provisions reported in the statement of financial position represent their present value as adjusted for unrecognised actuarial gains and losses. Additions to these obligations and provisions are reported as part of expenses after the employees render services for which they will have the right for such benefits.

2.10 Taxation

The income tax includes current tax payable and deferred tax.

2.10.1 Current Tax Payable

The tax currently payable is based on taxable profit for the year. The taxable profit differs from the profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.10.2 Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.10.3 Current Tax Payable and Deferred Tax for the Period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside of profit or loss (whether in comprehensive income or directly in equity), in which case the tax is also recognised outside of profit or loss.

2.11 Property, Plant and Equipment

Property, plant and equipment are carried at cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Freehold land is not depreciated.

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. If there is no sufficient certainty that the lessee will acquire the ownership of an asset at the end of the lease, this asset is depreciated over the lease period if it is shorter than the anticipated useful life.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The Group capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs.

2.12 Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Group measures its investment property using the cost valuation model in accordance with the requirements of IAS 16 Property, plant and equipment.

2.13 Intangible Assets

2.13.1 Intangible Assets Acquired Separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

2.13.2 Internally-Generated Intangible Assets - Development Expenditure

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;

- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.14 Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.15 Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and subsequently adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When a Group entity transacts with an associate of the Group, profits and losses arising from the transactions with the associate are reported in the Group's consolidated financial statements to the extent of the interest in the relevant associate that is not owned by the Group.

2.16 Investments in Subsidiaries and Associates Excluded from the Consolidation

Investments in subsidiaries and associates excluded from the consolidation are considered immaterial for the Group. They are reported as other financial assets available for sale in the financial statements. As their fair value cannot be reliably determined, they are measured at cost.

2.17 Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.18 Inventories

Inventories are measured at the lower of cost and net realisable value. Costs of inventories are determined using the weighted arithmetic average method. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

2.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20 Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following four categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

2.20.1 Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income and expenses are recognised on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

2.20.2 Held-to-maturity Investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

2.20.3 Financial Assets Available for Sale

Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group holds equity investments that are not traded on an active market, classified as financial assets available for sale and carried at cost less any impairment losses as their fair value cannot be reliably determined.

Dividends on the AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

2.20.4 Loans and Receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables for which the recognition of interest would be immaterial.

2.20.5 Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The Group records impairment losses (allowances) based on an individual assessment of trade receivables and allowances of 20 percent against receivables that are past due by greater than six months, and full allowances against receivables registered for recovery under insolvency proceedings and receivables where court proceedings against the relevant debtor have been initiated. The Group does not recognise allowances against receivables from its subsidiaries and SŽDC.

With the exception of the AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of the AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

2.20.6 Derecognition of Financial Assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

2.20.7 Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

2.20.8 Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

2.20.9 Derecognition of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

2.20.10 Derivative Financial Instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, currency and commodity risks.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured at their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

2.20.11 Hedge Accounting

The Group designates certain hedging instruments as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

2.20.12 Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of the cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Standards and Interpretations Effective for Annual Periods Ending 31 December 2010

During the year ended 31 December 2010, the following standards, revised standards and interpretations took effect:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
– Amendment to IFRS 1	1 July 2009
– Additional Exemptions for First-time Adopters	1 January 2010
IFRS 2 – Group Cash-settled Share-based Payment Arrangements	1 January 2010
IFRS 3 – revised standard	1 July 2009
IAS 27 – revised standard	1 July 2009
IAS 39 – Eligible Hedged Items	1 July 2009
Improvements to IFRSs (2009) – revised IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16, removing inconsistencies and clarifying wording	1 July 2009 or 1 January 2010
IFRIC 12 – Service Concession Arrangements	30 March 2009
IFRIC 15 – Agreements for the Construction of Real Estate	1 January 2010
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation	1 July 2009
IFRIC 17 – Distributions of Non-Cash Assets to Owners	1 November 2009
IFRIC 18 – Transfers of Assets from Customers	1 November 2009

The above standards and interpretations have no impact on the presentation and disclosures or presented financial results, except as follows:

In accordance with part of "Improvements to IFRSs (2009)" relating to IFRS 8, the Company does not have to disclose assets of a segment if they are not monitored by management of the Company.

The adoption of the revised IFRS 3 resulted in changes in the terminology regarding business combinations.

3.2 Standards and Interpretations Adopted in Advance of their Effective Dates

The Group applied the exemption listed in paragraphs 25 – 27 of IAS 24 (revised), effective for annual periods beginning on or after 1 January 2011. The exception relates to the reporting of related party transactions with state-controlled entities (refer to the Note 'Related Party Transactions').

3.3 Standards and Interpretations in Issue not yet Adopted

At the balance sheet date, the following standards and interpretations were issued but not yet effective and the Group did not adopt them in advance of their effective dates.

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
– Limited Exemption from Requirements of IFRS 7	1 July 2010
– Limited Exemption from Requirements of IFRS 9	1 July 2010
– Removal of Fixed Dates for First-time Adopters	1 July 2011
– Severe Hyperinflation	1 July 2011
IFRS 7 – Enhanced De-recognition Disclosure Requirements	1 July 2011
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2013
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2013
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 32 – Classification of Rights Issues	1 February 2010
Improvements to IFRSs (2010) – revised IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34, IFRIC 13	1 July 2010 or 1 January 2011
IFRIC 14 – Minimum Funding Requirements	1 January 2011
Revised IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – minimum funding requirement relating to future services	1 January 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Management of the Group anticipates that the adoption of these standards, revised standards and interpretations will have no material impact on the Group in the following periods.

3.4 Standards and Interpretations that are Issued by the International Accounting Standard Board (IASB) but not yet Adopted by the European Union

At the balance sheet date, some of the standards and interpretations listed in the prior note have not been adopted by the European Union:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
– Removal of Fixed Dates for First-time Adopters	1 July 2011
– Severe Hyperinflation	1 July 2011
IFRS 7 – Enhanced De-recognition Disclosure Requirements	1 July 2011
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2013
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2013
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1 Useful Lives of Property, Plant and Equipment

The Group reviews the estimated useful lives of depreciated property, plant and equipment at the end of each annual reporting period. Although the Group identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods.

4.2 Impairment of Assets

The Group assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available.

4.3 Revenue and Expenses from International Transportation

Given the long intervals of settlement of mutual payments between transporters in the international transportation, the Parent Company has to estimate the amount of these expenses and revenues. The actual value confirmed by an international settlement institution may be different.

4.4 Measurement of Financial Derivatives

The Group uses financial derivatives for cash flow hedging. The measurement of derivatives in the financial statements is based on appropriate measurement techniques using identifiable market assumptions. If these assumptions changed, the measurement of financial derivatives would be different.

4.5 Income Taxation

The Group records significant deferred tax assets. The determination of the recoverable value of these assets depends on the estimate of their future realisation.

4.6 Provision for Employee Benefits

The Group recognises a provision for employee benefits. In calculating the provision, the Group uses an actuarial model which is based on the up-to-date employee information and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents. A change in the anticipated parameters would impact the amount of the provision.

5 REVENUE FROM PRINCIPAL OPERATIONS

All of the below additional information on the income statement relates to continuing operations. Profits and losses from discontinued operations are disclosed in a separate note (Note 15).

(CZK '000)

	2010	2009
Revenue from passenger transportation	6 621 047	6 624 609
– *Intrastate passenger transportation*	*4 803 270*	*4 687 633*
– *International passenger transportation*	*1 817 777*	*1 936 976*
Payments from public service orderers	12 111 113	12 360 844
– *Payment from the state budget*	4 075 037	3 996 611
– *Payment from the regional budget*	8 036 076	8 364 233
Revenue from freight transportation	11 836 349	11 189 062
Revenue from securing railway routes - servicing the route	5 194 373	5 320 200
Other revenue from principal operations	2 032 641	1 621 118
Total revenue from principal operations – continuing operations	**37 795 523**	**37 115 833**

The revenue from securing railway routes predominantly includes the revenue from services rendered to SŽDC due to servicing the route. Payments from public service orderers relate to regional and long-distance intrastate passenger transportation. Other revenue from principal operations predominantly includes the revenue from railway transportation by other transporters and owners of railways, revenue from other transportation, revenue from the lease of wagons and other revenue from freight transportation.

6 OTHER OPERATING INCOME

(CZK '000)

	2010	2009
Gain from disposal of property, plant and equipment and investment property	397 685	215 307
Gain from the sale of inventory	3 046	69 536
Sales of other services	1 567 727	1 502 390
Rental income	598 771	601 003
Compensations for deficits and damage	165 320	95 171
Acquisition of material	54 080	74 257
Other subsidies	9 326	6 300
Other	408 904	408 610
Total other operating income – continuing operations	**3 204 859**	**2 972 574**

7 PURCHASED CONSUMABLES AND SERVICES

(CZK '000)

	2010	2009
Traction costs	-4 482 712	-4 274 090
– *Traction fuel (diesel)*	*-1 926 808*	*-1 659 706*
– *Traction electricity*	*-2 555 904*	*-2 614 384*
Payment for the use of railway route	-3 999 292	-4 028 320
Other purchased consumables and services	-8 988 469	-8 421 204
– *Consumed material*	*-1 487 377*	*-1 785 740*
– *Consumed other energy*	*-816 075*	*-776 379*
– *Consumed fuel*	*-84 203*	*-65 126*
– *Repairs and maintenance*	*-772 427*	*-559 239*
– *Travel costs*	*-170 441*	*-178 975*
– *Telecommunication, data and postal services*	*-324 567*	*-358 928*
– *Other rental*	*-198 174*	*-178 103*
– *Rental for rail vehicles*	*-1 283 125*	*-1 065 871*
– *Transportation charges*	*-666 348*	*-447 360*
– *Services of dining and sleeping carriages*	*-127 929*	*-126 226*
– *Services associated with the use of buildings*	*-284 782*	*-254 384*
– *Operational cleaning of rail vehicles*	*-420 373*	*-417 393*
– *Border area services*	*-443 383*	*-429 214*
– *Advertising and promotion costs*	*-352 201*	*-371 401*
– *Other services*	*-1 557 064*	*-1 406 865*
Total purchased consumables and services – continuing operations	**-17 470 473**	**-16 723 614**

Other services predominantly include expenses related to the environment, commissions to ticket vendors, education, and similar charges.

8 EMPLOYEE BENEFIT COSTS

(CZK '000)

	2010	2009
Payroll costs	-12 615 357	-13 104 326
Severance pay	-488 414	-558 079
Statutory social security and health insurance	-4 273 286	-4 389 468
Benefits resulting from the collective agreement	-220 590	-231 188
Other social costs	-720 196	-711 127
Other employee benefit costs	-23 405	-18 833
Total employees benefit costs – continuing operations	**-18 341 248**	**-19 013 021**

9 DEPRECIATION AND AMORTISATION

(CZK '000)

	2010	2009
Depreciation of property, plant and equipment	-5 275 551	-6 270 747
Depreciation of investment property	-68 764	- 44 372
Amortisation of intangible assets	-333 008	-386 823
Total depreciation and amortisation – continuing operations	**-5 677 323**	**-6 701 942**

10 OTHER OPERATING LOSSES

(CZK '000)

	2010	2009
Change in provisions	-238 911	16 838
Losses (reversal of losses) from impaired receivables	11 115	-85 925
Losses (reversal of losses) from impaired property, plant and equipment	212 364	383 918
Write-down (reversal of the write-down) of inventories to their net realisable value	17 689	897
Taxes and fees	-53 905	-28 412
Other operating expenses	-572 777	-655 349
Total other operating losses – continuing operations	**-624 425**	**-368 033**

11 FINANCIAL EXPENSES

(CZK '000)

	2010	2009
Interest on bank overdraft accounts and loans	-24 508	-47 009
Interest on finance lease payables	-189 289	-156 874
Other interest expenses	-257 971	-153 664
Less: amounts capitalised as part of the costs of an eligible asset	137 580	23 399
Unwinding of the discount of provisions	-20 908	-20 114
Other financial expenses	-3 824	-3 494
Total financial expenses – continuing operations	**-358 920**	**- 357 756**

Other interest expenses include interest on loans from ČSOB, loans from EUROFIMA and accrued interest on issued bonds.

12 OTHER GAINS

(CZK '000)

	2010	2009
Net foreign exchange gains	293 486	125 123
Received dividends	37 351	38 859
Gain from the sale of securities and equity investments	0	420
Received interest	15 189	19 429
Gains from current financial assets	2 880	19 399
Banking fees	-21 952	-21 541
Actuarial gainsl	74 929	39 535
oss from derivative transactions	-3 179	0
Other	-12 116	-994
Total other gains - continuing operations	**386 588**	**220 230**

13 INCOME TAXATION

13.1 Income Tax Reported in Profit or Loss

(CZK '000)

	2010	2009
Current income tax for the period reported in profit or loss	-17 824	-33 470
Deferred tax recognised in the income statement	59 204	223 465
Other *)	1 161	- 1 048
Total tax charge relating to continuing operations	**42 541**	**188 947**

*) Predominantly taxes paid from the individual tax base, eg received dividends

Reconciliation of the total tax charge for the period to the accounting profit:

(CZK '000)

	2010	2009
Profit (loss) from continuing operations before tax	-1 081 069	-2 851 404
Income tax calculated using the statutory rate of 19% and 20%, respectively	205 403	570 281
Effect of the unrecognised deferred tax asset	27 606	-176 934
Other*)	-190 468	-204 400
Income tax reported in profit or loss	**42 541**	**188 947**

*) The effect of permanently non-tax expenses and income, effect of the change in the rate, tax calculated from the individual tax base

The tax rate used in the reconciliation is the corporate income tax rate which has to be paid by Czech legal entities from their taxable profits according to Czech tax laws.

13.2 Income Tax Recognised in Other Comprehensive Income

(CZK '000)

	2010	2009
- Remeasurement of financial instruments recognised as cash flow hedging	-107 230	-114 296
Total income tax recognised in other comprehensive income	**-107 230**	**-114 296**

13.3 Deferred Tax

(CZK '000)

	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 31 Dec 2008 – calculated	859 971	-1 377 032	133 076	-32 146	12 929	256 731	25 810	-120 661
Balance at 31 Dec 2008 - recognised	**0**	**-479 068**	**19 191**	**-57 485**	**632**	**256 731**	**25 732**	**-234 267**
Deferred tax recognised in profit or loss:	0	187 409	-8 534	25 048	6 967	-6 969	19 544	223 465
- *of which current changes in the deferred tax*	*591 089*	*-250 411*	*22 978*	*12 635*	*9 291*	*-6 969*	*21 786*	*400 399*
- *of which impairment *)*	*-591 089*	*437 820*	*-31 512*	*12 413*	*-2 324*	*0*	*-2 242*	*-176 934*
Deferred tax reported in other comprehensive income	0	0	0	0	0	-114 296	0	-114 296
Reclassification of the deferred tax to assets held for sale	0	59 737	17 077	0	0	0	1 726	78 540
Balance at 31 Dec 2009	**0**	**-231 922**	**27 734**	**-32 437**	**7 599**	**135 466**	**47 002**	**-46 558**
- *of which liability*	*0*	*-98 150*	*200*	*472*	*441*	*0*	*40 237*	*-56 800*
- *of which asset*	*0*	*-133 772*	*27 534*	*-32 909*	*7 158*	*135 466*	*6 765*	*10 242*
Deferred tax recognised in profit or loss:	2 149	69 401	53 279	-56 625	-1 549	-240	-7 211	59 204
- *of which current changes in the deferred tax*	*-329 293*	*380 372*	*40 818*	*-35 547*	*-7 673*	*-240*	*-16 839*	*31 598*
- *of which impairment *)*	*331 442*	*-310 971*	*12 461*	*-21 078*	*6 124*	*0*	*9 628*	*27 606*
Deferred tax reported in other comprehensive income	0	0	0	0	0	-107 230	0	-107 230
- *of which current changes in the deferred tax*	*0*	*0*	*0*	*0*	*0*	*-117 965*	*0*	*-117 965*
- *of which impairment *)*	*0*	*0*	*0*	*0*	*0*	*10 735*	*0*	*10 735*
Reclassification of the deferred tax to assets held for sale	0	0	-5 457	0	0	0	1 525	-3 932
Balance at 31 Dec 2010	**2 149**	**-162 521**	**75 556**	**-89 062**	**6 050**	**27 996**	**41 316**	**-98 516**
- *of which liability*	*2 149*	*-162 521*	*75 556*	*-89 062*	*6 050*	*27 996*	*41 316*	*-98 516*
- *of which asset*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*

*) The decrease in the deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value

According to the preliminary due corporate income tax return for the 2010 taxation period, the Parent Company records tax losses for the 2006, 2007 and 2009 taxation periods in the aggregate amount of CZK 5,892,727,295. Tax losses can be carried forward for five taxation periods subsequent to the period in which the relevant loss was assessed, ie between 2010 and 2014.

Given the low anticipated taxable profits of the Parent Company, the realisation of deferred tax assets is uncertain. For this reason, the Parent Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14 SEGMENT INFORMATION

14.1 Products and Services from which Reportable Segments Derive their Revenues

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Parent Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group's reportable segments under IFRS 8 are therefore as follows:

Passenger transportation – other information on passenger railway transportation is disclosed in Note 14.3.

Freight transportation – other information on freight railway transportation is disclosed in Note 14.3.

Management of operations – the Group provides this activity for the operator of the railway route – SŽDC, other information is provided in Note 30.

Administration of assets – the segment provides the administration and operations of real estate owned by the Group, including internal and external leases. Real estate predominantly includes station buildings and land surrounding the railroad.

Other – predominantly activities of less significant subsidiaries and overhead activities that are not allocated to other segments.

14.2 Segment Revenues and Expenses

The following is an analysis of the Group's results from continuing operations by reportable segment in the format in which the financial statement is presented to the Parent Company's management. Results of individual segments are reported in accordance with Czech Accounting Standards. Adjustments made for reporting under IFRS are provided as part of the reconciliation of the segment statement with the income statement.

(CZK million)

2010	Passenger transportation	Management of operations	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	Total
Revenue from principal operations							
Revenue from passenger transportation	6 516	0	0	0	0	105	6 621
Revenue from securing railway routes	0	5 194	0	0	0	0	5 194
Payments from orderers	12 111	0	0	0	0	0	12 111
Other	119	52	3	14 098	6	-408	13 870
	18 746	**5 246**	**3**	**14 098**	**6**	**-303**	**37 796**
Purchased consumables and services							
Traction costs	-2 631	0	0	-1 893	0	41	-4 483
Payment for the use of the railway route	-1 398	0	0	-2 555	-16	-30	-3 999
Other purchased consumables and services	-6 205	-278	-689	-4 043	-2 481	4 708	-8 988
	-10 234	**-278**	**-689**	**-8 491**	**-2 497**	**4 719**	**-17 470**
Staff costs							
Payroll costs	-5 347	-3 379	-241	-3 357	-1 274	494	-13 104
Social security and health insurance	-1 712	-1 091	-73	-1 082	-398	83	-4 273
Statutory social costs	-35	-47	-2	-201	-41	-394	-720
Statutory social costs - benefits arising from the collective agreement	-232	-149	-7	-8	-25	177	-244
	-7 326	**-4 666**	**-323**	**-4 648**	**-1 738**	**360**	**-18 341**
Other operating income and expenses	1 164	-28	1 088	27	3 196	-2 867	2 580
Intracompany income and expenses	-154	-18	203	0	-31	0	0
Overhead costs – operating	-895	-264	-63	0	1 222	0	0
Depreciation and amortisation							-5
	-1 692	-34	-220	-1 111	-416	-2 204	677
Other income and expenses	238	-4	6	-302	278	-142	74
Overhead costs – financial and other	145	46	12	0	-203	0	0
Profit (loss) for the period from continuing operations	**-8**	**0**	**17**	**-427**	**-183**	**-437**	**-1 038**
Profit (loss) for the period from discontinued operations	0	0	0	0	307	-209	98
Profit (loss) for the period	**-8**	**0**	**17**	**-427**	**124**	**-646**	**-940**
Profit (loss) attributable to non-controlling interests	0	0	0	0	0	2	2
Profit (loss) attributable to owners of the parent company	-8	0	17	-427	124	-648	-942

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

(CZK million)

2009	Passenger transportation	Management of operations	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	Total
Revenue from principal operations							
Revenue from passenger transportation	6 525	0	0	0	0	100	6 625
Revenue from securing railway routes	0	5 320	0	0	0	0	5 320
Payments from orderers	12 360	0	0	0	0	0	12 360
Other	102	66	3	13 244	33	-637	12 811
	18 987	**5 386**	**3**	**13 244**	**33**	**-537**	**37 116**
Purchased consumables and services							
Traction costs	-2 710	0	0	-1 639	0	75	-4 274
Payment for the use of the railway route	-1 419	0	0	-2 561	0	-48	-4 028
Other purchased consumables and services	-6 053	-314	-586	-3 498	-2 728	4 757	-8 422
	-10 182	**-314**	**-586**	**-7 698**	**-2 728**	**4 784**	**-16 724**
Staff costs							
Payroll costs	-5 603	-3 485	-242	-3 562	-1 386	616	-13 662
Social security and health insurance	-1 791	-1 118	-79	-1 090	-421	110	-4 389
Statutory social costs	-36	-36	-3	-210	-46	-380	-711
Statutory social costs - benefits arising from the collective agreement	-226	-144	-8	-5	-21	153	-251
	-7 656	**-4 783**	**-332**	**-4 867**	**-1 874**	**499**	**-19 013**
Other operating income and expenses	989	-5	880	414	3 897	-3 569	2 606
Intracompany income and expenses	-110	-58	191	0	-23	0	0
Overhead costs – operating	-962	-272	-54	0	1 288	0	0
Depreciation and amortisation	-1 792	-13	-219	-1 076	-569	-3 033	-6 702
Other income and expenses	25	-3	22	-445	-151	607	55
Overhead costs – financial and other	-145	-48	-12	0	205	0	0
Profit (loss) for the period from continuing operations	**-846**	**-110**	**-107**	**-428**	**78**	**-1 249**	**-2 662**
Profit (loss) for the period from discontinued operations	0	0	0		13	82	95
Profit (loss) for the period	**-846**	**-110**	**-107**	**-428**	**91**	**-1 167**	**-2 567**
Profit (loss) attributable to non-controlling interests	0	0	0	0	0	49	49
Profit (loss) attributable to owners of the parent company	-846	-110	-107	-428	91	-1 216	-2 616

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

14.3 Information on Principal Customers

The Parent Company was formed pursuant to, and its operations are governed by, general legal regulations governing joint stock companies and the Transformation Act (Act No. 77/2002 Coll.). The Transformation Act, inter alia, sets out the scope of the Company's assets and its role in operating railway routes and rendering transportation services in the public interest.

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation from the orderer (the State) is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. On 2 December 2009, the Parent Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

At the financial statements date, the Parent Company entered into contracts for public service commitments with all regions, or signed amendments to the existing contracts. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of ten years or more, ie before 3 December 2009. Similarly as the contract with the State, they are governed by legal regulations that were in effect before the Regulation entered into effect.

A significant change in funding the regional transportation related to the fact that the regions and the State agreed on the additional funding of the regional railway transportation for 2009 in the total amount of CZK 3.2 billion. Before Governmental Resolution No. 686/2009 dated 1 June 2009 was adopted, the ordered regional railway transportation was not additionally funded in that approximate amount. Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years.

ČD Cargo, a.s. provides its services to a significant number of business partners. The most important local customers in terms of the sales volume include AWT SPEDI-TRANS, s.r.o., ČEZ, a.s., CARBOSPED, spol. s r.o., MORAVIA STEEL a.s., NH TRANS SE, ČD Logistics a.s. Principal foreign customers are A.P. Möller, AWT Hungary Kft, Gefco SA, ČD generalvertretung GmbH, Express Slovakia "Mezinárodná preprava a.s.", and principal foreign railway customers are DB Schenker Rail Deutschland AG, Železničná spoločnosť Cargo Slovakia, a.s., Rail Cargo Austria AG and PKP Cargo S.A.

15 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

15.1 Sale of Traťová strojní společnost, a.s. (TSS)

In 2009, the Parent Company decided to sell its equity share in TSS. The sale was made in 2010. The ownership title to the equity interest passed to the buyer, Ostravské opravny strojírny, s.r.o. on 18 August 2010.

The loss of the entity was recognised in discontinued operations in the years ended 31 December 2009 and 2010. The assets and liabilities of TSS that were classified as held for sale in 2009 were removed from the assets and liabilities held for sale as of the sale date.

15.2 Analysis of the Result and Cash Flows from Discontinued Operations

The following table shows the profit from discontinued operations. It is composed of the profit or loss of TSS before the sale date, the gain from the sale and the discount from the purchase price upon the transfer of part of the Company's business to SŽDC in 2008. The discount relates to asset items the ownership title of which was not transferred to SŽDC.

(CZK '000)

	2010	2009
Profit or loss of TSS		
– *Income*	*473 681*	*908 469*
– *Expenses*	*-494 974*	*-792 155*
– *Loss before tax*	*-21293*	*116 314*
– *Relevant income tax recognised in expenses*	*0*	*-20 478*
Gain from the sale of TSS		
– *Received consideration*	*600 400*	*0*
– *Sold net assets*	*-931 602*	*0*
– *Non-controlling interest*	*456 422*	*0*
– *Profit before tax*	*125 220*	
– *Relevant income tax recognised in expenses*	0	0
Other (discount from the purchase price upon the transfer of a business part to SŽDC in 2008)	-5 446	0
Total profit from discontinued operations	**98 481**	**95 836**
Cash flows from operating activities	10 282	149 796
Cash flows from investment activities	582 506	-204 550
– *Payments for property, plant and equipment*	*-17 646*	*-204 313*
– *Payments for intangible assets*	*-699*	*-2 530*
– *Proceeds from disposal of property, plant and equipment*	*600 617*	*1 595*
– *Received interest*	*234*	*698*
Cash flows from financing activities	-11 904	50 401
Net cash flows from discontinued operations	**580 884**	**-4 353**

15.3 Assets Held for Sale

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Intangible assets	0	0	0
Land	40 000	30 680	51 846
Buildings	147 768	57 585	42 428
Assets relating to TSS	0	1 261 455	0
Total	**187 768**	**1 349 720**	**94 274**

The following table shows the value of the net assets of TSS held for sale as of 31 December 2009 and the value of the disposal of the net assets of TSS as of 18 August 2010 when the Company lost control over TSS:

		(CZK '000)
	18 Aug 2010	31 Dec 2009
Intangible assets	3 712	3 422
Property, plant and equipment	783 051	741 773
Inventories	54 515	53 917
Trade receivables	333 053	354 966
Cash and cash equivalents	59 682	79 198
Tax receivables	31 272	19 047
Other financial assets	295	145
Other assets	9 080	8 987
Total assets	**1 274 660**	**1 261 455**
Trade payables	145361	81 661
Provisions	12 373	17 150
Short-term bank loans	60 000	70 000
Tax payables	93 735	99 192
Other payables	31 589	40 556
Liabilities related to assets held for sale	**343 058**	**308 559**
Net assets	**931 602**	**952 896**

15.4 Spin-off of the Part of Business – Management of Operations

In 2008, part of the Parent Company's business relating to certain activities securing the operability of railway route operations (securing operability, preparation of the railway timetable and fire brigade activities) was spun-off and transferred to SŽDC. The provision of other services (railway route servicing and organising railway transport under extraordinary circumstances), including the relevant capacities, remained the responsibility of the Parent Company, which delivers the activities to SŽDC, the railway operator, as a contractor.

In February 2011, the Czech Government decided to transfer the remaining activities to SŽDC with effect from 1 July 2011. The part of the Parent Company's business intended for sale includes the Management of Operations and relates to approximately 9,500 employees. In terms of other activities, this business part is not a significant unit, it specifically includes specific inventory (equipment parts), intangible assets (applications used for operations management) and furniture and fixtures of offices. The Parent Company does not monitor assets and liabilities of the segment on an ongoing basis. The list of the assets intended for sale has not been completed as of the balance sheet date.

16 PROPERTY, PLANT AND EQUIPMENT

(CZK '000)

Cost	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Land	6 355 676	29 231	26 959	-57 296	6 300 652	29 489	58 928	-41 415	6 229 798
Structures	17 742 711	684 485	254 397	-173 512	17 999 287	496 408	96 428	-348 205	18 051 062
Individual movable assets	86 513 299	11 440 205	5 272 105	-574 058	92 107 341	9 916 046	4 734 616	32 718	97 321 489
– *Machinery, equipment, and furniture and fixtures*	*4 352 228*	*695 797*	*269 965*	*-346 193*	*4 431 867*	*216 117*	*205 927*	*-372 541*	*4 069 516*
– *Vehicles*	*77 416 933*	*7 862 392*	*4 843 819*	*-227 865*	*80 207 641*	*7 333 084*	*4 351 995*	*312 141*	*83 500 871*
– *Vehicles acquired under finance leases*	*4 567 867*	*2 836 378*	*109 469*	*0*	*7 294 776*	*2 360 169*	*151 980*	*0*	*9 502 965*
– *Other*	*176 271*	*45 638*	*48 852*	*0*	*173 057*	*6 676*	*24 714*	*93 118*	*248 137*
Other assets	*30 335*	*30*	*5 948*	*0*	*24 417*	*25 184*	*558*	*-20 282*	*28 761*
Assets under construction	1 302 469	8 497 723	0	-8 305 795	1 494 397	7 325 133	3 007	-7 146 718	1 669 805
Prepayments	2 065 470	2 159 468	2 272 082	-11 485	1 941 371	3 709 221	2 391 532	0	3 259 060
Total	**114 009 960**	**22 811 142**	**7 831 491**	**-9 122 146**	**119 867 465**	**21 501 481**	**7 285 069**	**-7 523 902**	**126 559 975**

(CZK '000)

Accumulated depreciation	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Structures	7 641 860	467 123	122 069	-33 568	7 953 346	414 158	62 824	-334 083	7 970 597
Individual movable assets	48 457 505	7 660 358	4 855 746	2 954	51 265 071	4 610 971	3 811 358	21 609	52 086 293
– *Machinery, equipment, and furniture and fixtures*	*2 982 040*	*523 936*	*349 598*	*0*	*3 156 378*	*193 184*	*197 600*	*-273 642*	*2 878 320*
– *Vehicles*	*44 890 634*	*5 948 138*	*4 336 591*	*2 954*	*46 505 135*	*3 899 887*	*3 437 946*	*253 702*	*47 220 778*
– *Vehicles acquired under finance leases*	*443 338*	*1 123 241*	*109 469*	*0*	*1 457 110*	*499 663*	*151 403*	*0*	*1 805 370*
– *Other*	*141 493*	*65 043*	*60 088*	*0*	*146 448*	*18 237*	*24 409*	*41 549*	*181 825*
Other assets	23 737	968	5 863	0	18 842	1 181	312	-18 658	1 053
Total	**56 123 102**	**8 128 449**	**4 983 678**	**-30 614**	**59 237 259**	**5 026 310**	**3 874 494**	**-331 132**	**60 057 943**

(CZK '000)

Impairment	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Land	3 277	1 022	0	-485	3 814	3 818	3 815	0	3 817
Structures	46 346	14 087	1 135	-269	59 029	54 877	59 028	0	54 878
Individual movable assets	1 682 615	38 769	428 175	0	1 293 209	138 163	332 867	0	1 098 505
– *Machinery, equipment, and furniture and fixtures*	*1 933*	*238*	*1 933*	*0*	*238*	*171*	*238*	*0*	*171*
– *Vehicles*	*1 680 682*	*38 531*	*426 242*	*0*	*1 292 971*	*137 992*	*332 629*	*0*	*1 098 334*
Total	**1 732 238**	**53 878**	**429 310**	**-754**	**1 356 052**	**196 858**	**395 710**	**0**	**1 157 200**

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 40, IFRS 5), in assets under construction, these include assets put into use.

(CZK '000)

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	6 352 399	6 296 838	6 225 981
Buildings	10 054 505	9 986 912	10 025 587
Individual movable assets	36 373 179	39 549 061	44 136 691
- *Machinery, equipment, and furniture and fixtures*	*1 368 255*	*1 275 251*	1 191 025
- *Vehicles*	*30 845 617*	*32 409 535*	35 181 759
- *Vehicles acquired under finance leases*	*4 124 529*	*5 837 666*	7 697 595
- *Other*	*34 778*	*26 609*	66 312
Other assets	6 598	5 575	27 708
Assets under construction	1 302 469	1 494 397	1 669 805
Prepayments	2 065 470	1 941 371	3 259 060
Total	**56 154 620**	**59 274 154**	**65 344 832**

Principal additions in the years ended 31 December 2009 and 2008 include the acquisition of railway vehicles as part of the renewal of the Parent Company's rolling stock.

In 2010, the Group acquired non-current assets financed through government grants in the amount of CZK 104,914 thousand. The cost of the assets was reduced by the amount of the grant.

16.1 Impairment Losses Recognised in the Reporting Period

Vehicles predominantly include railway vehicles (locomotives, wagons, other railway vehicles) used for operating railway transportation. Pursuant to the inventory count and analyses, items of assets were identified for which there is a significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell. The principal impairment loss as of 31 December 2010, 2009 and 2008 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 960,342 thousand, CZK 1,154,680 thousand and CZK 1,433,000 thousand, respectively.

Impairment losses are included in other operating expenses in the income statement.

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	30 – 50
Structures	20 – 50
Locomotives	20 – 30
Passenger coaches	20 - 30
Wagons	25 – 33
Machinery and equipment	8 – 20
Optical fibres	35

16.2 Assets Pledged as Collateral

The Parent Company holds assets at the net book value of CZK 3,595,799 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 2,502,260 thousand, the Ampz passenger coaches amounted to CZK 461,643 thousand and the Bmz passenger coaches amounted to CZK 631,896 thousand. The pledge was established in favour of EUROFIMA.

17 INVESTMENT PROPERTY

Set out below is an analysis of investment property:

(CZK '000)

	2010	2009
Balance at the beginning of the year	2 204 523	2 271 001
Additions from subsequent capitalised expenses	99 823	13 530
Disposals	-13 416	0
Disposals, annual depreciation	-68 763	-44 297
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	448 124	3 177
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-468 968	-47
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-93 979	-38 849
Change in the value	-239	8
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-6 665	0
Balance at the end of the year	**2 100 440**	**2 204 523**

(CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Cost	2 936 323	2 893 707	3 153 314
Accumulated depreciation	-663 580	-687 449	-1 049 795
Impairment	-1 742	-1 735	-3 079
Net book value	**2 271 001**	**2 204 523**	**2 100 440**

The Group includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Parent Company used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2010, 2009 and 2008 is CZK 3,493,240 thousand, CZK 3,168,633 thousand and CZK 3,195,526 thousand, respectively.

The Parent Company determines the depreciation method and useful lives of investment property on the same basis as for property included in property, plant and equipment.

18 INTANGIBLE ASSETS

(CZK '000)

Cost	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Development costs	104 038	0	166	0	103 872	0	7 615	0	96 257
Software	1 714 753	68 383	85 598	-170 554	1 526 984	198 361	135 618	-81 513	1 508 214
Valuable rights	217 183	95 000	8 327	168 664	472 520	55 077	607	40 738	567 728
Other assets	2 223	241	0	-440	2 024	525	1 191	0	1 358
Assets under construction	114 384	301 042	0	- 231 634	183 792	206 845	0	-227 216	163 421
Prepayments	7 224	16644	23868	0	0	170	170	0	0
Total	**2 159 805**	**481 310**	**117 959**	**- 233 964**	**2 289 192**	**460 978**	**145 201**	**-267 991**	**2 336 978**

(CZK '000)

Accumulated amortisation	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Development costs	102 427	565	166	0	102 826	525	7 614	0	95 737
Software	1 032 481	257 981	51 384	-28 251	1 210 827	242 169	135 106	-24 716	1 293 174
Valuable rights	184 442	39 543	7 706	28 251	244 530	70 566	126	24 716	339 686
Other assets	1 593	292	0	0	1 885	150	1 192	0	843
Assets under construction	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0
Total	**1 320 943**	**298 381**	**59 257**	**0**	**1 560 068**	**313 410**	**144 038**	**0**	**1 729 440**

(CZK '000)

Impairment	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Software	38 468	0	38 468	0	0	0	0	0	0
Total	**38 468**	**0**	**38 468**	**0**	**0**	**0**	**0**	**0**	**0**

(CZK '000)

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Development costs	1 611	1 046	520
Software	643 804	316 157	215 040
Valuable rights	32 741	227 990	228 042
Other assets	630	139	515
Assets under construction	114 384	183 792	163 421
Prepayments	7 224	0	0
Total	**800 394**	**729 124**	**607 538**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the income statement. The Group used useful lives of 1.5 – 6 years in calculating amortisation.

Intangible fixed assets include software ARES, In-card, UNIPOK, IS OPT, ISOŘ and items related to the SAP R/3 accounting software and its modules.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure relating to the SAP R/3, ISOŘ, IS-PRM, IS-ADPV, In-cards, and IS-KADR software modules.

19 INVESTMENTS IN ASSOCIATES

Name of the entity	Value of investment as of 31 Dec 2010	Value of investment as of 31 Dec 2009	Value of investment as of 31 Dec 2008	Principal activity	Ownership percentage
JLV, a. s.	116 946	115 367	115 885	Catering services	38.79%

Summary of financial information on JLV, a. s.:

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total assets	377 882	367 092	352 454
Total liabilities	76 396	69 678	53 705
Net assets	301 486	297 414	298 749
Share of the Company in associates' net assets	**116 946**	**115 367**	**115 885**

(CZK '000)

	2010	2009
Total income	326 951	357 632
Profit for the period	11 214	11 150
Share of the Company in associates' profit for the period	**4 350**	**4 325**

20 INVENTORIES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Spare parts for machinery and equipment	75 815	79 089	301 972
Spare parts and other components for rail vehicles and locomotives	739 905	693 673	312 968
Other machinery, tools and equipment and their spare parts	164 901	199 094	299 610
Fuels, lubricants and other oil products	25 116	26 081	30 373
Work clothes, work shoes, protective devices	252 377	235 203	239 936
Other	125 197	117 020	155 645
Total cost	**1 383 311**	**1 350 160**	**1 340 504**
Write-down of inventories to their net realisable value	-52 731	-70 424	-66 667
Total net book value	**1 330 580**	**1 279 736**	**1 273 837**

The Parent Company's inventories are gathered in the Supply Centre in Česká Třebová.

21 TRADE RECEIVABLES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Long-term	10 098	24 181	2 153
Short-term	3 484 872	3 760 040	5 264 167
Total	**3 494 970**	**3 784 221**	**5 266 320**

21.1 Aging of Trade Receivables

(CZK '000)

	Category	Before due date	Past due date (days) 1 - 30 days	31 - 90	91 - 180	181 - 365	365 and more	Total past due date	Total
31 Dec 2010	Gross	3 168 138	148 889	58 959	14 379	33 097	212 642	467 966	3 636 104
	Allowances	-3 097	0	-1 797	-959	-7 891	-127 390	-138 037	-141 134
	Net	**3 165 041**	**148 889**	**57 162**	**13 420**	**25 206**	**85 252**	**329 929**	**3 494 970**
31 Dec 2009	Gross	3 447 465	137 523	54 458	68 286	66 373	183 730	510 370	3 957 835
	Allowances	-611	-38	-30 276	-12 716	-28 943	-101 030	-173 003	-173 614
	Net	**3 446 854**	**137 485**	**24 182**	**55 570**	**37 430**	**82 700**	**337 367**	**3 784 221**
31 Dec 2008	Gross	4 962 941	158 942	61 022	54 650	76 268	73 588	424 470	5 387 411
	Allowances	-594	0	-26	-8 283	-45 589	-66 599	-120 497	-121 091
	Net	**4 962 347**	**158 942**	**60 996**	**46 367**	**30 679**	**6 989**	**303 973**	**5 266 320**

Receivables which are past their due dates by more than 181 days and are not provisioned consist primarily of receivables of ČD Cargo, a. s. from foreign railway companies which are not treated as distressed receivables.

21.2 Movements in Allowances for Doubtful Receivables

(CZK '000)

	2010	2009
Balance at the beginning of the year	173 614	121 091
Recognition of allowances	309 306	125 390
Use of allowances	-341 786	-72 867
Balance at the end of the year	**141 134**	**173 614**

22 OTHER FINANCIAL ASSETS

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Financial assets available for sale	406 509	376 217	381 150
Receivables from finance leases	120 713	114 149	117 615
Hedging derivatives	42 793	0	0
Other	56 556	26 177	35 641
Total non-current financial assets	**626 571**	**516 543**	**534 406**
Receivables from finance leases	-6 658	3 466	193
Hedging derivatives	15 497	0	0
Other	218 718	83 911	71 068
Total current financial assets	**227 557**	**87 377**	**71 261**
Total	**854 128**	**603 920**	**605 667**

22.1 Receivables from Finance Leases

The Parent Company has leased the station buildings at the Brno - hlavní nádraží and Prague – Dejvice stations under finance leases.

(CZK '000)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2010	31 Dec 2009	31 Dec 2008
Under 1 year	3 707	13 921	10 868	-6 658	3 466	193
From 1 to 5 years	24 823	14 561	18 011	-25 137	- 32 551	-26 366
5 years and more	456 402	470 331	480 803	145 850	146 700	143 981
Total	**484 932**	**498 813**	**509 682**	**114 055**	**117 615**	**117 808**
Less: unrealised financial income	-370 877	-381 198	-391 874			
Present value of receivables of minimum lease payments	**114 055**	**117 615**	**117 808**	**114 055**	**117 615**	**117 808**
In the statement of financial position as:						
– Other current financial assets				*-6 658*	*3 466*	*193*
– Other non-current financial assets				*120 713*	*114 149*	*117 615*
Total				**114 055**	**117 615**	**117 808**

The fair value of receivables from finance leases approximates their carrying amount. Negative values in certain lines of the table indicate that lease payments in the period are lower than unrealised financial income, hence the present value of the minimum lease payments increases in this period.

23 OTHER ASSETS

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total non-current assets	**184 529**	**232 827**	**46 331**
Prepayments made	195 513	205 545	147 760
Tax receivables (except for the corporate income tax)	362 518	308 089	424 500
Prepaid expenses	152 496	120 172	109 663
Other	74 064	102 948	314 079
Total current assets	**784 591**	**736 754**	**996 002**
Total	**969 120**	**969 581**	**1 042 333**

24 EQUITY

24.1 Share Capital

The Parent Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

24.2 Reserve and Other Funds

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Share premium	16 439 605	16 439 853	16 439 853
Statutory reserve fund	182 030	184 523	33 343
Cash flow hedging reserve	-51 533	-604 780	-1 009 465
Other	571	1 046	3 057
Non-controlling interests	-3 043	-12 556	-10 121
Total	**16 567 630**	**16 008 086**	**15 456 667**

Allocations are made to the statutory reserve fund in accordance with the national legislation.

24.2.1 Cash Flow Hedging Reserve

(CZK '000)

	2010	2009
Balance at the beginning of the year	-604 780	-1 009 465
Profit from revaluation	264 472	116 552
Accrual of the cost	9 127	-60 829
Reclassifications to profit or loss upon settlement	386 878	463 258

Total change in the cash flow hedging reserve	**660 477**	**518 981**
Relating income tax	-107 230	-114 296
Balance at the year-end	**-51 533**	**-604 780**

The cash flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated accrued profit or loss from hedging derivatives is reclassified to the profit or loss only if the hedging transaction impacts the profit or loss or is included as an adjustment to the base in the hedged non-financial item in accordance with relevant accounting principles.

Gains and losses reclassified during the year from equity are included under 'Other gains' in the income statement.

25 LOANS AND BORROWINGS

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Short-term bank loans	256 798	271 195	275 960
Short-term issued bills of exchange	2 877 117	1 013 500	0
Payables from finance leases	767 719	668 295	520 517
Overdraft accounts	2 136 140	32 783	1 648 758
Other received short-term loans and borrowings	6 792	0	0
Total short-term	**6 044 566**	**1 985 773**	**2 445 235**
Payable to EUROFIMA	4 134 850	4 366 672	4 443 396
Issued bonds	1 982 412	1 970 899	0
Other – received loans and borrowings – long-term	13 522	17 541	0
Loan from ČSOB – long-term	770 392	1 084 780	1 379 800
Payables from finance leases	5 565 909	4 242 098	3 236 217
Total long-term	**12 467 085**	**11 681 990**	**9 059 413**
Total	**18 511 651**	**13 667 763**	**11 504 648**

In the financial statements for the year ended 31 December 2009, the Group incorrectly presented short-term bills of exchange of CZK 1,013,500 thousand as long-term bills of exchange. For this reason, the comparative information as of 31 December 2009 was adjusted, short-term loans and borrowings are increased by the stated amount and long-term loans and borrowings are decreased by the stated amount.
Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

In 2004, the Parent Company received a long-term loan from EUROFIMA to finance the purchase of railway vehicles. This loan was increased in the year ended 31 December 2006 by EUR 30 million and by another EUR 30 million in the year ended 31 December 2007. This loan is collateralised by a state guarantee and its interest rate is determined based on the Pribor/Euribor reference rate plus a usual market markup. The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2010 and 2009 was CZK 10,255 thousand and CZK 23,399 thousand, respectively. The maturity of the loan is 10 years for each individual tranche.

The Parent Company issued bonds with three-year maturity and fixed coupon of 5% p.a., repayable annually, on 14 December 2009. The issue amounted to CZK 2 billion. The issue was not listed and was intended for private investors. The principal manager of the issue was ČSOB. The issue rate as of the issue date was 98.38%.

The Parent Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium include Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The loan has been provided to finance the renovation of the Parent Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. The interest rate of the loan is determined based on the Pribor/Euribor reference rates plus a usual market markup. The Parent Company makes repayments on a semi-annual basis on 25 May and 25 November each year. The final maturity date of the loan is 25 November 2014.

The subsidiary DPOV Přerov, a. s. obtained a long-term investment loan provided by KB, a. s. Přerov. As of 31 December 2010, CZK 20,315 thousand (2009: CZK 17,541 thousand) was drawn. The loan was collateralised by a Letter of Comfort from the Parent Company.

In the year ended 31 December 2008, the subsidiary ČD-Telematika a.s. obtained a long-term loan for the financing of the purchase of software licences. The provider of the loan is ČSOB leasing. The contract was discontinued as of 28 December 2009, the overpayment was refunded in February 2010.

On 13 July, the subsidiary ČD Cargo, a.s. started to issue debt bills of exchange. As of 31 December 2010, the total volume of these transactions amounted to CZK 813,117 thousand with the maturity in November 2011 (2009: CZK 1,013,500 thousand with the maturity of 6 months). As of 31 December 2009 and 2010, the company used no long-term loans. The balance of short-term loans as of 31 December 2010 is CZK 1,412,257 thousand (2009: CZK 32,783 thousand).

The Group breached no loan covenants in the reporting period.

25.1 Finance Lease Payables

The finance lease applies to railway vehicles, software, vehicles and equipment for computers and servers. The value of finance leases is as follows:

(CZK '000)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2010	31 Dec 2009	31 Dec 2008
Less than 1 year	969 759	850 676	660 173	767 719	668 295	520 517
From 1 to 5 years	3 819 478	3 102 410	2 548 501	3 129 026	2 644 994	2 271 067
5 years and more	2 719 499	1 751 924	1 020 360	2 436 883	1 597 104	965 150
Total	**7 508 736**	**5 705 010**	**4 229 034**	**6 333 628**	**4 910 393**	**3 756 734**
Less future finance expenses	-1 175 109	-794 617	-472 300			
Present value of minimum lease payments	**6 333 627**	**4 910 393**	**3 756 734**	**6 333 628**	**4 910 393**	**3 756 734**
In the statement of financial position as:						
– short-term loans				*767 719*	*668 295*	*520 517*
– long-term loans				*5 565 909*	*4 242 098*	*3 236 217*
Total				**6 333 628**	**4 910 393**	**3 756 734**

The fair value of finance lease payables approximates their carrying amount.

26 PROVISIONS

(CZK '000)

	Balance at 31 Dec 2008	Charge	Use	Balance at 31 Dec 2009	Charge	Use	Balance at 31 Dec 2010
Provision for discounts and refunds	20 100	9 752	20 100	9 752	22 165	9 752	22 165
Provision for rents	10 818	15 220	15 385	10 653	11 223	10 653	11 223
Provision for legal disputes	33 585	35 734	33 585	35 734	283 199	35 734	283 199
Provision for outstanding vacation days	120 640	77 294	120 640	77 294	75 542	77 294	75 542
Provision for removal of the environmental burden	0	226 737	0	226 737	0	3 034	223 703
Provisions for employees bonuses	568 202	211 767	231 188	548 781	110 352	164 373	494 760
Other provisions	19 592	2 267	19 592	2 267	736	2 266	737
Provisions for business risks	0	0	0	0	240 000	0	240 000
Total provisions	**772 937**	**578 771**	**440 490**	**911 218**	**743 217**	**303 106**	**1 351 329**
– long-term	*370 644*			*573 437*			*537 467*
– short-term	*402 293*			*337 781*			*813 862*

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 5%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office.

A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the income statement. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

In the first half of 2009, the Parent Company evaluated the results of the environmental audit performed in selected localities. The audit highlighted the need to provide the clean-up of the areas in Brodek u Přerova between 2010 and 2012. The budget of the clean-up is CZK 223,703 thousand (2009: CZK 226,737 thousand) and is planned to take three years. The funding of CZK 182,117 thousand (2009: CZK 180,962 thousand) will be provided from the Environmental Operational Programme in the form of an EU subsidy – Cohesion Fund and CZK 10,713 thousand (2009: CZK 10,645 thousand) will be provided from the Czech state budget, Chapter 15. A provision was recognised in respect of these aggregate costs in the consolidated financial statements for the year ended 31 December 2009; the claim for the subsidy is reported under 'Other non-current assets'.

27 TRADE PAYABLES

(CZK '000)

Year	Category	Before due date	Past due date (days) 0 – 30	31 – 90	91–180	181-365	365 and more	Total past due date	Total
31 Dec 2010	Short-term	7 589 620	479 437	35 527	15 276	6 719	6 938	543 897	**8 133 517**
31 Dec 2009	Short-term	7 731 855	513 877	38 079	6 588	5 978	11 040	575 562	**8 307 417**
31 Dec 2008	Short-term	7 331 805	597 317	44 262	93 462	31 060	19 038	785 139	**8 116 944**

The Group carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

Supplier invoices typically mature in 90 days.

28 OTHER FINANCIAL LIABILITIES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Long-term received prepayments	0	163 044	306 107
Financial derivatives	0	376 099	0
Other long-term liabilities	1 219 897	1 561 929	1 317 857
Total long-term	**1 219 897**	**2 101 072**	**1 623 964**
Other	88 862	712	88 177
Financial derivatives	148 452	386 878	1 327 784
Total short-term	**237 314**	**387 590**	**1 415 961**
Total	**1 457 211**	**2 488 662**	**3 039 925**

Other long-term liabilities predominantly include repayments according to repayment schedules, assignment of liabilities and rebilled liabilities.

29 OTHER LIABILITIES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total long-term	**89 957**	**101 260**	**106 876**
Received prepayments	227 343	241 290	248 144
Payables from the transition period (SŽDC-transformation)	435 865	435 865	436 108
Payables to employees	1 613 043	1 595 895	1 662 886
Social security and health insurance payables	509 414	517 245	530 087
Subsidies	1 104	31 098	22 642
Other	1 475 550	1 265 053	735 581
Total short-term	**4 262 319**	**4 086 446**	**3 635 448**
Total	**4 352 276**	**4 187 706**	**3 742 324**

Other short-term liabilities predominantly include leases received in advance, tax withheld from employees and other deferred income.

30 RELATED PARTY TRANSACTIONS

30.1 Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2010, 31 December 2009 and 31 December 2008.

30.2 Bonuses to Key Management Members

Directors and other members of key management received the following bonuses in the reporting period:

(CZK '000)

	2010	2009
Short-term employee benefits	175 764	193 966
Post-employment benefits	1 485	2 225
Other long-term employees benefits	2 137	1 331
Total	**179 386**	**197 522**

In addition to the possibility of using reduced fares, the members of the Parent Company's statutory and supervisory bodies were provided with cash bonuses of CZK 24,446 thousand and CZK 20,633 thousand in 2010 and 2009, respectively. Management of the Parent Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

30.3 Transactions with SŽDC

The Parent Company is wholly owned by the state. In accordance with the exemption listed in paragraphs 25 – 27 of IAS 24 (revised), the Parent Company does not include other state-owned entities among related parties. The table below presents only transactions with SŽDC as a result of SŽDC's significant position in the Parent Company's activities.

In the year ended 31 December 2010, the Parent Company secured the servicing of the railway route on behalf of the operator, SŽDC, s.o. The contract for the servicing of railway routes was entered into in the summer of 2008 and is also applicable with its amendments in 2010.

The Group operates the railway route and it pays a regulated fee to SŽDC for the use of the railway route.

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2010 and 2009 were as follows:

(CZK '000)

2010	Expenses	Income
Servicing railway routes	500	5 194 373
Use of railway route and allocated capacity of the railway route – passenger transportation	1 444 051	0
Use of railway route and allocated capacity of the railway route – freight transportation	2 555 241	0
Consumed traction electricity	955 465	0
Other	302 839	72 270
Total	**5 258 096**	**5 266 643**

(CZK '000)

2009	Expenses	Income
Servicing railway routes	0	5 320 200
Use of railway route and allocated capacity of the railway route – passenger transportation	1 467 762	0
Use of railway route and allocated capacity of the railway route – freight transportation	2 560 443	0
Consumed traction electricity	2 614 384	0
Other	192 298	31 979
Total	**6 834 887**	**5 352 179**

Income from securing railway routes is reported under 'Revenue from principal operations'. The costs of using railway routes, the allocated capacity of the railway route and consumed electricity are reported under 'Purchased consumables and services'.

Given the above activities, the Group records receivables from and payables to SŽDC. The total amount of receivables reported in the line 'Trade receivables' is CZK 562,057 thousand as of 31 December 2010 (CZK 464,466 thousand as of 31 December 2009 and CZK 923,023 thousand as of 31 December 2008). The total amount of payables reported in the line 'Trade payables' is CZK 1,530,124 thousand as of 31 December 2010 (CZK 2,177,282 thousand as of 31 December 2009 and CZK 2,150,767 thousand as of 31 December 2008).

In addition, the Group reports an estimated payable in the line 'Trade payables' arising from unbilled supplies from SŽDC in the amount of CZK 27,018 thousand as of 31 December 2009 (CZK 27,003 thousand as of 31 December 2009 and CZK 120,008 thousand as of 31 December 2008). The estimated receivable arising from the billing of securing railway routes reported in the line 'Trade receivables' amounted to CZK 11,172 thousand as of 31 December 2010 (CZK 8,053 thousand as of 31 December 2009 and CZK 78,354 thousand as of 31 December 2008).

31 CASH AND CASH EQUIVALENTS

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash flows statement can be reconciled to the relevant items in the statement of financial position as follows:

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Cash on hand and cash in transit	55 692	53 390	43 720
Cash at bank	433 569	1 080 006	749 605
Depository bills of exchange	230 200	1 200 000	4 012 508
Total	**719 461**	**2 333 396**	**4 805 833**

32 CONTRACTS FOR OPERATING LEASES

32.1 The Group as a Lessee

Assets under operating leases which are reported off balance sheet as of 31 December 2010, 31 December 2009 and 31 December 2008 amount to CZK 207,139 thousand, CZK 105,161 thousand and CZK 31,396 thousand, respectively. Assets include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the years ended 31 December 2010 and 2009 amounted to CZK 85,992 thousand and CZK 106,654 thousand, respectively.
The Group as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

32.2 The Group as a Lessor

Operating leases applies to investment property held by the Group with various lease periods.

Revenue from the lease of property that the Company acquired in 2010 from investment property based on the operating leases amounts to CZK 569,557 thousand (2009: CZK 570,922 thousand).

Direct operating expenses relating to investment property for the period amounted to CZK 211,573 thousand (2009: CZK 189,655 thousand).

Income from operating leases of movable assets in 2010 amounts to CZK 95,911 thousand (2009: CZK 72,597 thousand).

The Group as a lessor concluded no irrevocable contracts for operating leases.

33 CONTRACTUAL OBLIGATIONS RELATING TO EXPENSES

As of the consolidated balance sheet date, the Group concluded contracts for the purchase of land, buildings and equipment and investment property in the amount of CZK 17,542,132 thousand, of which CZK 5,779,941 thousand relates to supplies contracted for 2011 and CZK 7,651,121 thousand relates to supplies contracted for the following years. The remaining CZK 4,111,070 thousand was paid as of 31 December 2010. A significant portion of the obligations relating to expenses (CZK 17,066,050 thousand) include investments in railway vehicles.

34 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the year ended 31 December 2010, two bank guarantees were renewed for the appropriate performance of the Contract for the Public Services in Railway Transport in the Public Interest to Provide for Transportation Needs of the State on the:

- Pardubice – Liberec railway track, in respect of the contract entitled "Ordered Transportation between Pardubice and Liberec", CZK 15 million, maturity on 10 December 2011; and

- Plzeň – Most railway track, in respect of the contract entitled "Ordered Transportation between Plzeň and Most", maturity on 10 December 2011, CZK 15 million.

The Parent Company holds a 1% equity investment in EUROFIMA. Shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for funding of railway vehicles purchases. According to Article 5 of the Articles of Association, shareholders pay to EUROFIMA only 20% of the equity investment value and the remaining 80 % can be required by EUROFIMA as needed pursuant to the resolution of the Board of Directors according to Point 6, Article 21, of the Articles of Association. The nominal value of unpaid shares as of 31 December 2010 was CHF 20,800 thousand (CZK 416,894 thousand) The likelihood that the Parent Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Parent Company's management.

ČD Cargo reports three bank guarantees in favour of WestInvest Waterfront Towers s.r.o. for the compliance with all liabilities and obligations of a lessee resulting from the lease contract with WestInvest Waterfront Towers s.r.o. – Lighthouse in the amount of EUR 207 thousand, EUR 3,780 and EUR 577. The guarantees are valid until 25 February 2011, 25 February 2011 and 27 January 2011, respectively.

In addition, ČD Cargo reports a bank guarantee in favour of HYPARKOS, s.r.o. which is held to cover the situation where ČD Cargo would not comply with the obligations stipulated in the Contract for the Lease of Buildings and Land in the Lovosice Logistics Centre. The guarantee amounts to CZK 16,517 thousand and is valid until 8 July 2011.

35 FINANCIAL INSTRUMENTS

35.1 Capital Risk Management

The Group manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance. The Board of Directors and the Supervisory Board of the Parent Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Parent Company's statutory bodies, ie the Board of Directors and the Supervisory Board.

The Group is not subject to any externally imposed capital requirements.

In 2010, the Group reported a significant increase in the short-term debt. The short-term debt predominantly includes funds acquired from the issue of short-term bills of exchange, predominantly outside the subscription obligation, which shows the willingness of investors to provide the Group with funding. The issued bills of exchange are used primarily for liquidity management when the Group plans to issue bonds to cover long-term investments as part of its financial strategy. The bills of exchange will be subsequently refinanced using long-term funds which will provide for both the optimal management of cash and long-term stability.

35.2 Significant Accounting Policies

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

35.3 Categories of Financial Instruments

(CZK '000)

Financial assets	31 Dec 2010	31 Dec 2009	31 Dec 2008
Cash and bank accounts	489 261	1 133 396	793 325
Derivative instruments in designated hedge accounting relationships	58 290	0	0
Held-to-maturity investments (term deposits and bills of exchange)	230 200	1 200 000	4 012 508
Loans and receivables	3 884 299	4 011 924	5 490 837
Available-for-sale financial assets	406 509	376 217	381 150
Total	**5 068 559**	**6 721 537**	**10 677 820**

(CZK '000)

Financial liabilities	31 Dec 2010	31 Dec 2009	31 Dec 2008
Derivative instruments in designated hedge accounting relationships	118 605	671 543	1 251 356
Other financial derivative instruments	29 847	91 433	76 428
Measured at amortised cost	27 953 927	23 700 866	21 333 733
Total	**28 102 379**	**24 463 842**	**22 661 517**

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

(CZK '000)

Financial assets	2010	2009	Reported in the income statement line
Interest on cash in bank accounts	4 821	9 451	Other gains
Interest on investments held to maturity (term deposits and bills of exchange)	2 879	19 399	Other gains
Dividends from available-for-sale financial assets	33 563	38 859	Other gains
Total	**41 263**	**67 709**	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No impairment was noted in respect of any other class of financial assets.

35.4 Financial Risk Management Objectives

The Group's Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

35.5 Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation and received loans. The Group seeks to maintain the proportion of long-term loans and borrowings in the foreign currency at the maximum level of 50%.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

(CZK '000)

31 Dec 2010	EUR	USD	Other	Total
Financial assets	1 741 361	4 443	1 566	1 747 370
Financial liabilities	-6 468 221	-14 705	-2 198	-6 485 124
Total	**-4 726 860**	**-10 262**	**-632**	**-4 737 754**

(CZK '000)

31 Dec 2009	EUR	USD	Other	Total
Financial assets	1 713 910	6 875	1 657	1 722 442
Financial liabilities	-7 119 759	-6 810	-694	-7 127 263
Total	**-5 405 849**	**65**	**963**	**-5 404 821**

(CZK '000)

31 Dec 2008	EUR	USD	Other	Total
Financial assets	972 532	666	16 991	990 189
Financial liabilities	-7 062 112	-1	-4 868	-7 066 981
Total	**-6 089 580**	**665**	**12 123**	**-6 076 792**

35.5.1 Foreign Currency Sensitivity Analysis

The exposure to currency risks is measured by a sensitivity analysis. The Group is exposed to the currency risk due to:

- Changes in the value of unhedged cash items denominated in foreign currencies; and
- Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK '000)

	2010	2009
Translation of unhedged items denominated in foreign currencies at the end of the period	189 225	205 251
Change in the fair value of derivatives at the end of the period	-2 096	0
Total impact on the profit for the period	**187 129**	**205 251**
Change in the fair value of derivatives at the end of the period	-155 698	-288 207
Total impact on other comprehensive income	**-155 698**	**-288 207**

35.5.2 Currency Forwards

To hedge the foreign currency differences in respect of the strengthening of the Czech crown, ČD Cargo, a.s. entered into currency option strategies – a combination of purchased put options and sold call options in 2008 and 2009. This hedging was entered into for the period of 39 months until December 2011.

The table shows outstanding foreign currency forwards and options for the sale of EUR as of:

(CZK '000)

Sale of EUR	Average currency exchange rate	Foreign currency	Nominal value	Fair value
31 Dec 2010	23.83	EUR	147 000	-187 130
31 Dec 2009	23.83	EUR	294 000	-797 406
31 Dec 2008	23.83	EUR	441 000	-1 290 338

35.6 Interest Rate Risk Management

The Group is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Group manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, ie the proportion of long-term loans and borrowings with floating interest rates should not exceed the maximum level of 50%.

Concurrently, the Group concludes interest rate swap contracts in order to hedge future cash flows resulting from loans and borrowings with variable rates. The hedging is regularly assessed to bring the opinions on the development of interest rates into line with the defined level of acceptable risk. This treatment provides for the application of the economically most effective hedging strategies.

35.6.1 Interest Rate Sensitivity Analysis

The exposure to changes in interest rates is measured by the sensitivity analysis. The Group is exposed to the interest rate risk due to:

- Changes in interest expenses from loans and lease with a variable rate;
- Changes in the present value of long-term provisions resulting from the change in the discount rate; and
- Change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in interest rates of 200 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

(CZK '000)

	2010	2009
Interest from loans and lease with variable rate for the period	-6 224	-7 687
Change in the present value of long-term provisions at the end of the period	39 003	43 670
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**32 779**	**35 983**
Change in the fair value of derivatives at the end of the period	114 286	0
Total impact on other comprehensive income	**114 286**	**0**

35.6.2 Interest Rate Swaps

Based on interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to eliminate the risk of changing cash flows on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period. As of 31 December 2009 and 2008, the Group concluded no interest rate swap contracts.

31 December 2010	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	2.43%	EUR 60 mil.	0
1 to 5 years	2.43%	EUR 60 mil.	17 564
5 years and more	2.43%	EUR 60 mil.	17 397
Total			**34 961**

The Group settles the difference between the fixed and variable interest rates on a net basis. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the variable interest rates on debt affect the profit or loss.

35.7 Commodity Risk Management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Group. The Group manages this risk using the combination of several instruments as follows:

- Conclusion of mid-term derivatives for oil purchase;

- In the event of an increase in the price of the commodities listed above of more than 10% the Group has the possibility of asking the regions and the state for increased payments for transportation; and

- Negotiating a fixed price of electricity from the relevant supplier always for the following calendar year.

35.7.1 Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Group is exposed to the risk of changes in prices of commodities due to:

- Change in the fair value of concluded financial derivatives; and
- Changes in prices of purchases of unhedged use of commodities.

The following table shows the impact that an increase in the oil price of 10% would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

(CZK '000)

	2010	2009
Costs of oil consumption for the period	-158 893	-188 926
Change in the fair value of derivatives at the end of the period	-9 268	3 237
Total impact on the profit for the period	**-168 161**	**-185 689**
Change in the fair value of derivatives at the end of the period	37 167	25 118
Total impact on other comprehensive income	**37 167**	**25 118**

35.7.2 Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as of:

(CZK '000)

Purchase of oil	Hedged range (CZK/mt)	Volume of contracts (mt)	Fair value (CZK thousand)
31 Dec 2010	550 – 820	22 807	61 802
31 Dec 2009	550 – 700	30 288	34 430
31 Dec 2008	550 – 700	45 432	-37 446

35.8 Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The concentration of the Parent Company's credit risk is low as a significant portion of the Parent Company's revenues (passenger transportation fare) is collected in cash. In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The maximum unhedged exposure to one counterparty is determined at CZK 50 million. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required).

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

35.9 Liquidity Risk Management

The ultimate responsibility for liquidity risk management rests with the Board of Directors of the Parent Company which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Parent Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group's short-term liabilities significantly exceed its short-term assets as of 31 December 2009. The predominant reason relates to the urgent necessity for capital expenditure and the use of easily available short-term funds for this purpose. The Group believes that it is able to manage this situation in the short-term through managing relationships with its suppliers and using all available short-term funds. In the mid-term financial plan, the Group anticipates increasing its long-term funds.

35.9.1 Liquidity and Interest Rate Risk Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change if interest rates differ from the estimates. The contractual maturity is based on the earliest date on which the Group may be required to pay.

(CZK '000)

31 Dec 2010	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 244 923	3 999 209	1 157 347	1 012 514	28 285	9 442 278
Derivatives	42 094	25 193	80 987	178	0	148 452
Finance lease liabilities	78 670	159 051	732 038	3 819 478	2 719 499	7 508 736
Variable interest rate instruments	1 414 280	14 978	1 059 822	3 641 756	1 523 590	7 654 426
Fixed interest rate instruments	50 613	2 215 263	723 429	2 091 381	0	5 080 686
Total	**4 830 580**	**6 413 694**	**3 753 623**	**10 565 307**	**4 271 374**	**29 834 578**

(CZK '000)

31 Dec 2009	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2 876 800	3 908 674	1 502 852	1 278 523	22 030	9 588 879
Derivatives	32 732	65 318	288 828	376 099	0	762 977
Finance lease liabilities	72 356	142 764	635 556	3 102 410	1 751 924	5 705 010
Variable interest rate instruments	35 406	90 673	357 260	2 970 431	2 826 139	6 279 909
Fixed interest rate instruments	50 000	350 000	713 500	2 165 968	0	3 279 468
Total	**3 067 294**	**4 557 429**	**3 497 996**	**9 893 431**	**4 600 093**	**25 616 243**

(CZK '000)

31 Dec 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 353 502	3 446 206	1 270 951	1 156 406	29 016	9 256 081
Derivatives	40 716	79 638	342 903	864 527	0	1 327 784
Finance lease liabilities	56 806	112 846	490 521	2 548 501	1 020 360	4 229 034
Variable interest rate instruments	1 638 568	90 661	450 793	1 808 324	4 411 095	8 399 441
Fixed interest rate instruments	0	0	0	0	0	0
Total	**5 089 592**	**3 729 351**	**2 555 168**	**6 377 758**	**5 460 471**	**23 212 340**

The following tables present the Group's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

(CZK '000)

31 Dec 2010	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 977 371	1 848 746	463 550	9 300	348 644	4 647 611
Derivatives	3 064	1 501	10 932	25 396	17 397	58 290
Finance lease assets	3 550	0	157	24 823	456 402	484 932
Fixed interest rate instruments	81 000	149 200	0	0	18 401	248 601
Total	**2 064 985**	**1 999 447**	**474 639**	**59 519**	**840 844**	**5 439 434**

(CZK '000)

31 Dec 2009	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 077 378	1 214 441	426 943	33 704	307 774	5 060 240
Finance lease assets	3 503	0	10 418	14 561	470 331	498 813
Fixed interest rate instruments	461 623	801 591	0	0	0	1 263 214
Total	**3 542 504**	**2 016 032**	**437 361**	**48 265**	**778 105**	**6 822 267**

(CZK '000)

31 Dec 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 437 042	1 467 817	742 087	18 888	584 923	6 250 757
Finance lease assets	720	0	10 148	18 011	480 803	509 682
Fixed interest rate instruments	4 117 408	0	0	0	0	4 117 408
Total	**7 555 170**	**1 467 817**	**752 235**	**36 899**	**1 065 726**	**10 877 847**

35.9.2 Financing Facilities

The Group has access to the below loan facilities:

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Overdraft loan facilities:			
– amount of the loan facility	*3 420 000*	*3 180 000*	*3 160 000*
– amount unused	*688 374*	*584 676*	*461 681*
Bills of exchange programme:			
– amount of the loan facility	*6 500 000*	*1 500 000*	*0*
– amount unused	*3 622 883*	*486 500*	*0*

35.10 Fair Value of Financial Instruments

35.10.1 Fair Values of Financial Instruments Carried at Amortised Cost

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

35.10.2 Valuation Techniques Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate.

- The fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows with the use of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

35.10.3 Fair Value Measurements Recognised in the Statement of Financial Position

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Group as of 31 December 2010, 31 December 2009 and 31 December 2008 are included in Level 3. Financial assets available for sale include equity investments the fair value of which cannot be reliably determined and hence are measured at cost.

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

(CZK '000)

	Available-for-sale financial assets	Derivatives	Total
Balance at 31 Dec 2008	**381 150**	**-1327784**	**-946 634**
Total gains (losses) from revaluation	410	101 550	101 960
– *in profit or loss*	*410*	*45 827*	*46 237*
– *in other comprehensive income*	*0*	*55 723*	*55 723*
Purchases	2 200	0	2 200
Sales/settlement	-7 543	463 258	455 715
Balance at 31 Dec 2009	**376 217**	**-762 976**	**-386 759**
Total gains (losses) from revaluation	-5 605	285 936	280 331
– *in profit or loss*	*-5 605*	*12 337*	*6 732*
– *in other comprehensive income*	*0*	*273 599*	*273 599*
Purchases	41 086	0	41 086
Sales/settlement	-5 189	386 878	381 689
Balance at 31 Dec 2010	**406 509**	**-90 162**	**316 347**

36 POST BALANCE SHEET EVENTS

The Parent Company started to prepare the transfer of its business part securing the servicing of the railway route to SŽDC (see Note 15.4)

37 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 15 April 2011.

České dráhy, a.s.

CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS AS ADOPTED BY THE EU AND INDEPENDENT AUDITOR'S REPORT

AS OF 31 DECEMBER 2009

Deloitte.

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Prague, Section C, File 24349
Id. No.: 49620592
Tax Id. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT
To the Shareholder of České dráhy, a.s.

Having its registered office at: Nábřeží L. Svobody 1222, Praha 1, 110 15
Identification number: 70994226

We have audited the accompanying consolidated financial statements of České dráhy, a.s. and subsidiaries, which comprise the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of České dráhy, a.s. and subsidiaries as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

In Prague on 31 January 2011

Audit firm:	Represented by:
Deloitte Audit s.r.o.	Stanislav Staněk on the basis of a power of attorney
Deloitte	

Consolidated Financial Statements for the Year Ended 31 December 2009

prepared under IFRS as adopted by the EU

Name of the Company:	České dráhy, a.s.
Registered Office:	Nábřeží L. Svobody 1222, 110 15 Praha 1
Legal Status:	Joint Stock Company
Corporate ID:	70994226

Components of the Consolidated Financial Statements:

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

INCOME STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF CHANGES IN EQUITY

CASH FLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements were prepared on 31 January 2011.

Statutory body of the reporting entity:	Signature
Petr Žaluda, Chairman of the Board of Directors and CEO	Žaluda

České dráhy, a.s.

Consolidated Financial Statements for the Year Ended 31 December 2009

prepared under IFRS as adopted by the EU

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2009

		31 Dec 2009 CZK thousand	31 Dec 2008 CZK thousand	1 Jan 2008 CZK thousand
Property, plant and equipment	16	59 274 154	56 154 620	54 006 585
Investment property	17	2 204 523	2 271 001	2 267 935
Intangible assets	18	729 124	800 394	985 859
Investments in associates	19	115 367	115 885	109 703
Deferred tax asset	13	10 242	0	0
Trade receivables	21	24 181	2 153	1 436
Other financial assets	22	516 543	534 406	388 577
Other assets	23	232 827	46 331	37 917
Total non-current assets		**63 106 961**	**59 924 790**	**57 798 012**
Inventories	20	1 279 736	1 273 837	1 273 995
Trade receivables	21	3 760 040	5 264 167	5 319 667
Tax receivables	13	13 418	20 203	1 945
Other financial assets	22	87 377	71 261	28 458
Other assets	23	736 754	996 002	864 949
Cash and cash equivalents	31	2 333 396	4 805 833	955 539
Assets held for sale	15	1 349 720	94 274	11 323 294
Total current assets		**9 560 441**	**12 525 577**	**19 767 847**
TOTAL ASSETS		**72 667 402**	**72 450 367**	**77 565 859**
Share capital	24	20 000 000	20 000 000	20 000 000
Reserve and other funds	24	16 008 086	15 456 667	16 437 920
Retained earnings		5 428 568	8 193 239	14 524 207
Non-controlling interests		1 294 634	1 258 578	1 196 561
Total equity		**42 731 288**	**44 908 484**	**52 158 688**
Loans and borrowings	25	12 695 490	9 059 413	8 123 726
Deferred tax liability	13	56 800	234 267	1 918 518
Provisions	26	573 437	370 644	467 800
Other financial liabilities	28	2 101 072	1 623 964	947 770
Other liabilities	29	101 260	106 876	112 994
Total long-term payables		**15 528 059**	**11 395 164**	**11 570 808**
Trade payables	27	8 307 417	8 116 944	7 598 279
Loans and borrowings	25	972 273	2 445 235	1 673 763
Tax payables	13	7 989	130 838	38 949
Provisions	26	337 781	402 293	497 891
Other financial payables	28	387 590	1 415 961	167 663
Other payables	29	4 086 446	3 635 448	3 859 818
Payables arising from assets held for sale	15	308 559	0	0
Total non-current payables		**14 408 055**	**16 146 719**	**13 836 363**
TOTAL LIABILITIES		**72 667 402**	**72 450 367**	**77 565 859**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

		Year ended 31 Dec 2009 CZK thousand	Year ended 31 Dec 2008 CZK thousand
CONTINUING OPERATIONS			
Revenue from principal operations	5	37 115 833	37 700 527
Other operating income	6	2 972 574	3 278 975
Purchased consumables and services	7	-16 723 614	-19 838 361
Employee benefit costs	8	-19 013 021	-19 186 675
Depreciation and amortisation	9	-6 701 942	-6 867 760
Other operating gains (losses)	10	-368 033	-2 403 928
Profit (loss) before interest and tax		**-2 718 203**	**-7 317 222**
Financial expenses	11	-357 756	-460 744
Other gains (losses)	12	220 230	243 510
Share of income of associates		4 325	4 426
Profit (loss) before tax		**-2 851 404**	**-7 530 030**
Income taxation	13	188 947	1 309 843
Profit (loss) for the period from contin. operations		**-2 662 457**	**-6 220 187**
DISCONTINUED OPERATIONS			
Profit (loss) from discontinued operations	15	95 836	-23 609
Profit (loss) for the period		**-2 566 621**	**-6 243 796**
Attributable to equity holders of the parent company		-2 615 417	-6 305 813
Attributable to non-controlling interests		48 796	62 017

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Year ended 31 Dec 2009 CZK thousand	Year ended 31 Dec 2008 CZK thousand
Profit (loss) for the period	-2 566 621	-6 243 796
Financial derivatives used in cash flow hedging	518 981	-1 251 355
Relating income tax	-114 296	241 890
Other comprehensive income for the period	**404 685**	**- 1 009 465**
Total comprehensive income for the period	**- 2 161 936**	**-7 253 261**
Attributable to equity holders of the parent company	- 2 210 732	-7 315 278
Attributable to non-controlling interests	48 796	62 017

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital CZK thousand	Reserve and other funds CZK thousand	Retained earnings CZK thousand	Non-controlling interests CZK thousand	Total equity CZK thousand
Balance at 1 January 2008	**20 000 000**	**16 437 920**	**14 524 207**	**1 196 561**	**52 158 688**
Profit or loss for the period	0	0	-6 305 813	62 017	-6 243 796
Other comprehensive income for the period	0	-1 009 465	0	0	-1 009 465
Allocation to the reserve fund	0	25 155	-25 155	0	0
Other	0	3 057	0	0	3 057
Balance at 31 December 2008	**20 000 000**	**15 456 667**	**8 193 239**	**1 258 578**	**44 908 484**
Profit or loss for the period	0	0	-2 615 417	48 796	-2 566 621
Other comprehensive income for the period	0	404 685	0	0	404 685
Allocation to the reserve fund	0	148 744	-148 744	0	0
Dividends paid	0	0	-510	-12 740	-13 250
Other	0	-2 010	0	0	- 2 010
Balance at 31 December 2009	**20 000 000**	**16 008 086**	**5 428 568**	**1 294 634**	**42 731 288**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	Year ended 31 Dec 2009 CZK thousand	Year ended 31 Dec 2008 CZK thousand
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the period before tax	-2 755 568	-7 553 639
Dividend income	-38 859	-8 308
Financial expenses	357 756	460 744
Profit (loss) from the sale and disposal of non-current assets	-641 323	-411 435
Depreciation and amortisation of non-current assets	6 701 942	6 867 760
Impairment of non-current assets	-414 975	1 336 286
Impairment of trade receivables	85 925	-15 359
Foreign exchange rate gains (losses)	-89 046	74 035
Other	-6 777	220 620
Cash flow from operating activities before changes in working capital	**3 199 075**	**970 704**
Decrease (increase) in trade receivables	1 344 071	-214 312
Decrease (increase) in inventories	-2 096	-142 420
Decrease (increase) in other assets	-1 189 974	-662 317
Increase (decrease) in trade payables	204 789	561 306
Increase (decrease) in provisions	138 281	-192 754
Increase (decrease) in other payables	468 229	237 487
Total changes in working capital	**963 300**	**-413 010**
Cash flows from operating activities	**4 162 375**	**557 694**
Interest paid	-345 064	-404 354
Income tax paid	-138 131	-231 366
Net cash flows from operating activities	**3 679 180**	**-78 026**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	-9 975 518	-10 526 349
Proceeds from disposal of property, plant and equipment	1 695 090	799 971
Payments for investment property	-13 530	-49 530
Net cash flows on disposal of a business part	0	11 852 101
Net cash flows on disposal of a subsidiary	4 000	0
Costs of acquisition of intangible assets	-54 052	-36 574
Received interest	19 429	7 976
Received dividends	38 859	8 308
Net cash flows (used in) from investment activities	**-8 285 722**	**2 055 903**
CASH FLOWS FROM FINANCING ACTIVITIES		
Use of loans and borrowings	6 029 635	3 727 009
Repayments of loans and borrowings	-3 895 530	- 1 854 592
Net cash flow from financing activities	**2 134 105**	**1 872 417**
Net (decrease) increase in cash and cash equivalents	**-2 472 437**	**3 850 294**
Cash and cash equivalents at the beginning of the reporting period	4 805 833	955 539
Cash and cash equivalents at the end of the reporting period	**2 333 396**	**4 805 833**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 GENERAL INFORMATION

1.1 General Information

České dráhy, a.s. (hereinafter the "Parent Company") was incorporated following its registration in the Register of Companies on 1 January 2003 as one of the legal successors of the former state organisation České dráhy. Additional details are presented in Note 1.5.

The Parent Company's registered office is located at nábř. L. Svobody 1222, Prague 1.

The Parent Company's share capital is CZK 20,000,000 thousand.

The consolidated financial statements have been prepared as of and for the year ended 31 December 2009. The reporting period is the calendar year, i.e. from 1 January 2009 to 31 December 2009.

The sole shareholder of the Parent Company is the Czech Republic.

1.2 Principal Operations

Since 1 December 2007, the Parent Company has been principally engaged in operating railway passenger transportation. Activities relating to the operation of railway freight transportation were spun-off to ČD Cargo, a.s. which was recorded in the Register of Companies as of 1 December 2007.

Pursuant to applicable legislation, the Parent Company also operates railway routes. The assets comprising the railway routes are in the ownership of the State, not the Parent Company. The right of management of these assets rests with the state organisation Railway Route Administration (Správa železniční dopravní cesty, státní organizace – "SŽDC"). As of 30 June 2008, the Parent Company sold part of its business to SŽDC as disclosed in Note 15.1. For this reason, the Parent Company ceased to secure the operability of the railway route but it continues in its servicing.

In addition, the Parent Company performs other activities related to the operation of transportation and transportation routes.

1.3 Organisational Structure of the Parent Company

The Parent Company is organised into sections overseen directly by the Parent Company's Chief Executive Officer (CEO) or Deputy CEOs, being:

- The section of the Parent Company's CEO;
- The section of the Parent Company's Deputy CEO for Human Resources;
- The section of the Parent Company's Deputy CEO for Finance;
- The section of the Parent Company's Deputy CEO for Passenger Transportation;
- The section of the Parent Company's Deputy CEO for Operations;
- The section of the Parent Company's Deputy CEO for Administration of Assets; and
- The section of the Parent Company's Deputy CEO for Sales and Marketing.

1.4 Bodies of the Parent Company

The Parent Company's bodies include the General Meeting, Board of Directors and Supervisory Board.

The General Meeting is the supreme body of the Parent Company. The sole shareholder of the Parent Company is the State which exercises the rights of the General Meeting through the Steering Committee.

The Parent Company's Bodies as of 31 December 2009

Steering Committee	
Chairman	Roman Boček
Vice-Chairman	Pavel Škvára
Member	Eduard Havel
Member	Bohumil Haase
Member	Miroslav Kalous
Member	Miloslav Müller
Member	Petr Polák

Through its Resolution No. 161 dated 2 February 2009, the Government of the Czech Republic changed the composition of the Parent Company's Steering Committee. The Government revoked the authorisation for activity in the Steering Committee for Jiří Hodač, Vice Chairman of the Steering Committee, and Vojtěch Kocourek, member of the Steering Committee, and authorised Zdeněk Žák to be the Vice Chairman of the Steering Committee and Pavel Škvára to be a member of the Steering Committee with effect from 3 February 2009.

In addition, through its Resolution No. 505 dated 20 April 2009 and Resolution No. 555 dated 27 April 2009, the Government changed the composition of the Company's Steering Committee. As of 20 April 2009, the Government revoked the authorisation for activity for Petr Šlegr, Chairman of the Steering Committee, and Zdeněk Žák, Vice Chairman of the Steering Committee, and authorised Pavel Škvára to be the Vice Chairman of the Steering Committee with effect from 21 April 2009, Eduard Havel to be a member of the Steering Committee with effect from 20 April 2009, and Roman Boček to be the Chairman of the Steering Committee with effect from 27 April 2009.

Board of Directors	
Chairman	Petr Žaluda
Member	Antonín Blažek
Member	Michal Nebeský
Member	Jiří Kolář
Member	Milan Matzenauer

As of 16 April 2009, Petr Moravec resigned from the position of a member of the Board of Directors. At its meeting held on 14 May 2009, the Supervisory Board appointed Antonín Blažek to be a member of the Board of Directors. On 4 December 2009, the Steering Committee approved the change in the Articles of Association reducing the number of members from six to five. As of 8 December 2009, Josef Bazala resigned from the position of a member of the Board of Directors.

Supervisory Board	
Chairman	Jaroslav Král
Member	Jan Bitter
Member	Karel Březina
Member	Tomáš Chalánek
Member	Antonín Leitgeb
Member	Zdeněk Prosek
Member	Pavel Škvára
Member	Vladislav Vokoun

On 31 December 2008, Jaromír Dušek's and Jiří Kratochvíl's terms of office as members of the Supervisory Board expired and on 1 January 2009, the term of office of the newly appointed members of the Supervisory Board, Vladislav Vokoun and Antonín Leitgeb, commenced.

On 18 February 2009, the Steering Committee of the Parent Company approved Vojtěch Kocourek's notice of resignation from the positions of the Chairman and member of the Supervisory Board and recalled a member of the Supervisory Board, Jan Černohorský. With effect from 19 February 2009, the Steering Committee of the Parent Company appointed Zdeněk Žák to be the Chairman and member of the Supervisory Board, and Pavel Škvára to be a member of the Supervisory Board.

In addition, the Steering Committee recalled Zdeněk Žák from the position of the Chairman and member of the Parent Company's Supervisory Board on 28 April 2009.

On 4 June 2009, the Steering Committee appointed Jaroslav Král as a member of the Supervisory Board. On 17 June, Jaroslav Král was appointed Chairman of the Supervisory Board.

Martin Roman resigned from the position of a member of the Supervisory Board on 10 December 2009.

On 4 March 2010, the Steering Committee appointed Jaroslav Palas as a member of the Supervisory Board.

1.5 Formation and Incorporation of the Parent Company

On the basis of Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended (the 'Transformation Act'), the Parent Company was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Parent Company and the state organisation Railway Route Administration ('SŽDC') were formed as its legal successors.

SŽDC largely assumed the assets comprising railway routes while the Parent Company largely assumed assets used to operate railway transportation and railway routes. In addition, SŽDC took over the bulk of receivables, payables and loans, while the Parent Company assumed only trade receivables and payables before their due dates and receivables and payables arising from employment arrangements with its employees. Both entities assumed the assets and liabilities at their book values.

1.6 Definition of the Consolidation Group

1.6.1 Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage	Degree of influence
České dráhy, a. s.	Prague 1, Nábřeží L.Svobody 12/1222	70994226		
Traťová strojní společnost, a. s.	Hradec Králové Jičínská 1605	27467295	51	Control
ČD - Telematika a. s.	Prague 3, Pernerova 2819/2a	61459445	59.31	Control
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	27257258	100	Control
DPOV, a. s.	Přerov, Husova 635/1b	27786331	100	Control
JLV, a. s.	Prague 4, Chodovská 3/228,	45272298	38.79	Significant
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control

*) Ownership percentage is the same as the voting rights percentage

The consolidation group is hereinafter referred to as the "Group".

The following table shows the information on entities included in consolidation in which the Parent Company exercises control (subsidiaries) as of 31 December 2009:

Name of the entity	Principal activities
Traťová strojní společnost, a. s.	Operation of special railway machines and facilities for the construction, renovation, and maintenance of railways, including their repairs and production of spare parts
ČD - Telematika a. s.	Provision of telecommunication services, software and advisory services
Výzkumný Ústav Železniční, a. s.	Research, development and testing of rail vehicles and infrastructure facilities
DPOV, a. s.	Inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a. s.	Freight railway transportation

The following table shows the information on entities included in consolidation in which the Parent Company exercises significant influence (associates) as of 31 December 2009:

Name of the entity	Principal activities
JLV, a. s.	Provision of accommodation and catering services

Pursuant to the registration in the Register of Companies on 28 December 2009, Jídelní a lůžkové vozy, a.s. was renamed to JLV, a.s.

1.6.2 Changes in the Composition of the Group

There were no year-on-year changes in the consolidation group. The date of the financial statements of companies included in the Group is 31 December 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2 Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.
As disclosed in Note 37, the consolidated financial statements represent the first set of the Group's financial statements prepared under IFRS as adopted by the EU.

2.3 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders were initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

2.4 Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

2.5 Investments in Subsidiaries and Associates Excluded from the Consolidation

Investments in subsidiaries and associates excluded from the consolidation are considered immaterial for the Group. They are reported as other financial assets available for sale in the financial statements. As their fair value cannot be reliably determined, they are measured at cost.

2.6 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised net of value added tax less discounts, if any.

Revenue from the sale of assets is recognised when the Parent Company has transferred to the buyer the significant risks and rewards of ownership. Sales of services are recognised when services are rendered to third parties. Revenues related to transportation services are recognised in the period in which the services are provided. Products with extended useful lives are accrued.

The Parent Company operates railway routes comprising assets owned by the State. Expenses and income associated with these activities are recognised in the profit and loss account in the period to which they relate on an accruals basis.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

2.7 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.7.1 The Group as a Lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.7.2 The Group as a Lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

2.8 Foreign Currencies

Given the economic substance of transactions and environment in which the Group operates, the functional and presentation currency used is the Czech crown (CZK).

Transactions denominated in foreign currencies are recorded at the ruling fixed exchange rate announced by the Czech National Bank. If the ruling exchange rate does not significantly change over time, the Company uses the foreign exchange rate promulgated as of the first day of the period for a longer period of time – usually one month. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss, except for cases when foreign exchange differences arise from transactions made in order to hedge certain currency risks. Such foreign currency differences are reported directly in the equity.

2.9 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.10 Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a reduced cost of non-current assets in the statement of financial position.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

2.11 Employee Benefit Costs

Employee benefit costs predominantly include payroll costs, payments of the employer for statutory health insurance and social security and pension insurance and costs of other employee benefits resulting from the collective agreement.

The employee benefit obligations and provisions reported in the statement of financial position represent their present value as adjusted for unrecognised actuarial gains and losses. Additions to these obligations and provisions are reported as part of expenses after the employees render services for which they will have the right for such benefits.

2.12 Taxation

The income tax includes current tax payable and deferred tax.

2.12.1 Current Tax Payable

The tax currently payable is based on taxable profit for the year. The taxable profit differs from the profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.12.2 Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.12.3 Current Tax Payable and Deferred Tax for the Period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside of profit or loss (whether in comprehensive income or directly in equity), in which case the tax is also recognised outside of profit or loss.

2.13 Property, Plant and Equipment

Property, plant and equipment are carried at cost reduced by accumulated depreciation and accumulated losses from impairment.

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. If there is no sufficient certainty that the lessee will acquire the ownership of an asset at the end of the lease, this asset is depreciated over the lease period if it is shorter than the anticipated useful life.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The Group capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs.

2.14 Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, the Group measures its investment property using the cost valuation model in accordance with the requirements of IAS 16.

2.15 Intangible Assets

2.15.1 Intangible Assets Acquired Separately

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

2.15.2 Internally-Generated Intangible Assets - Development Expenditure

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.16 Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.17 Assets Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

2.18 Inventories

Inventories predominantly include material and spare parts for repairs and maintenance of property, plant and equipment. Inventories do not include spare parts which are classified as Property, plant and equipment.

Purchased inventory is valued at acquisition cost which also includes costs attributable to the acquisition, such as transportation costs, customs duties and other related indirect costs.

Inventories produced internally are valued at the internal costs of production including direct costs and an element of production overheads.

Inventories are issued out of stock at costs determined using the weighted arithmetic average method. Inventories identified during the stock count and previously unrecorded in the accounting records, inventories originating from excess material from the disposal or repairs of fixed assets or any possible donations are stated at replacement cost.

The purchase of material is recognised in inventories, consumed material is recognised in expenses.

At the consolidated balance sheet date, the value of inventories is adjusted to the lower of net realisable value or cost. Further adjustment for impairment of inventory is assigned a percentage indicating the estimated temporary impairment due to the likelihood of this inventory not being usable for the Group's internal purposes or being disposed of at a price lower than cost.

2.19 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20 Financial Assets

All financial assets are recognised and derecognised on a trade date basis and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

2.20.1 Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income and expenses are recognised on an effective interest basis for debt instruments other than those financial assets and liabilities classified as at FVTPL.

2.20.2 Held-to-maturity Investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

2.20.3 *Financial Assets Available for Sale*

The Group holds equity investments that are not traded on an active market, classified as financial assets available for sale and carried at cost as their fair value cannot be reliably determined.

Dividends on the AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

2.20.4 *Loans and Receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

2.20.5 *Impairment of Financial Assets*

At the consolidated balance sheet date, the Group records allowances based on an individual assessment of a receivable and allowances of 20 percent against receivables that are past due by greater than six months, full allowances against receivables registered for recovery under bankruptcy and settlement proceedings and receivables where court proceedings against the relevant debtor have been initiated. The Parent Company does not recognise allowances against receivables from SŽDC, s. o.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

With the exception of the AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of the AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

2.20.6 *Derecognition of Financial Assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

2.20.7 *Equity Instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

2.20.8 Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

2.20.9 Derecognition of Financial Liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

2.20.10 Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.20.11 Hedge Accounting

The Group uses cash flow hedging. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Standards and Interpretations Effective for Annual Periods Ending 31 December 2009

The Group prepared the financial statements under IFRS for the first time as of 31 December 2009 (the first time adoption of IFRS with the transition date of 1 January 2008) in accordance with all standards and interpretations that were issued and adopted by the EU as of that date. The information on standards and interpretations that were issued or revised and adopted by the Group for the first time in the prior reporting period is not relevant in this situation.

3.2 Standard and Interpretations Adopted in Advance of their Effective Dates

The Group applied the exemption listed in paragraphs 25 – 27 of IAS 24 (revised), effective for annual periods beginning on or after 1 January 2011. The exception relates to the reporting of related party transactions with state-controlled entities (refer to the Note 'Related Party Transactions').

In addition, the Group adopted part of the "Improvements to IFRSs (2009)" (refer to below) relating to IFRS 8 effective for annual periods beginning on or after 1 January 2010. According to these Improvements, the Company does not have to disclose segment assets if they are not monitored by the Company's management.

Furthermore, the Group adopted IFRS 3 (revised) – Business Combinations effective for annual periods beginning on or after 1 July 2009. The early adoption of the standard has no significant impact on the Group, it only results in terminology changes in business combinations.

3.3 Standards and Interpretations in Issue not yet Adopted

At the consolidated balance sheet date, the following standards and interpretations were issued but not yet effective and the Group did not adopt them in advance of their effective dates.

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
– Amendment to IFRS 1	1 July 2009
– Additional Exemptions for First-time Adopters	1 January 2010
– Limited Scope Exemptions for First-time Adopters relating to comparative prior-period information according to IFRS 7	1 July 2010
– Limited Exemption from Requirements of IFRS 9	1 July 2010
– Removal of Fixed Dates for First-time Adopters	1 July 2011
– Severe Hyperinflation	1 July 2011
IFRS 2 – Group Cash-settled Share-based Payment Arrangements	1 January 2010
IFRS 7 – Enhanced De-recognition Disclosure Requirements	1 July 2011
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2013
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2013
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 27 – Revised standard	1 July 2009
IAS 32 – Classification of Rights Issues	1 February 2010
IAS 39 – Eligible Hedged Items	1 July 2009
Improvements to IFRSs (2009) – revised IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16, removing inconsistencies and clarifying wording	1 July 2009 or 1 January 2010
Improvements to IFRSs (2010) – Revised IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34, IFRIC 13	1 July 2010 or 1 January 2011
IFRIC 12 – Service Concession Arrangements	30 March 2009
IFRIC 14 – Minimum Funding Requirements	1 January 2011
Revised IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – minimum funding requirement relating to future services	1 January 2011
IFRIC 15 – Agreements for the Construction of Real Estate	1 January 2010
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation	1 July 2009
IFRIC 17 – Distributions of Non-Cash Assets to Owners	1 November 2009
IFRIC 18 – Transfers of Assets from Customers	1 November 2009
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

Management of the Group anticipates that the adoption of these standards, revised standards and interpretations will have no material impact on the Group in the following periods.

3.4 Standards and Interpretations that are Issued by the International Accounting Standard Board (IASB) but not yet Adopted by the European Union

At the consolidated balance sheet date, some of the standards and interpretations listed in the prior note have not been adopted by the European Union:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
– Removal of Fixed Dates for First-time Adopters	1 July 2011
– Severe Hyperinflation	1 July 2011
IFRS 7 – Enhanced De-recognition Disclosure Requirements	1 July 2011
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2013
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2013
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
Improvements to IFRSs (2010) – Revised IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13	1 July 2010 or 1 January 2011

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.1 Useful Lives of Property, Plant and Equipment

The Group reviews the estimated useful lives of depreciated property, plant and equipment at the end of each annual reporting period. Although the Group identified no changes in the useful lives of property, plant and equipment, the situation may change in the following periods.

4.2 Impairment of Assets

The Group assesses the recoverable value of all asset components when there are indicators of their impairment (with the exception of intangible assets under construction, the recoverable value of which is assessed annually). This assessment is based on anticipated assumptions and may change in the future as the situation evolves and information is available.

4.3 Revenue and Expenses from International Transportation

Given the long intervals of settlement of mutual payments between transporters in the international transportation, the Parent Company has to estimate the amount of these expenses and revenues. The actual value confirmed by an international settlement institution may be different.

4.4 Use of Deemed Cost upon the First Adoption of IFRSs

As disclosed below, the Group used the fair value as the deemed cost for certain real estate and assets sold to SŽDC in 2008 in the transition to IFRSs. The fair value was determined by the valuation model using market parameters available as of the consolidated financial statements date. When using different input parameters, the deemed cost of the remeasured asset items would be different.

4.5 Measurement of Financial Derivatives

The Group uses financial derivatives for cash flow hedging. Measurement of derivatives in the financial statements is based on appropriate measurement methods using identifiable market assumptions. If these assumptions changed, the measurement of financial derivatives would be different.

4.6 Income Taxation

The Group records significant deferred tax assets. The determination of the recoverable value of these assets depends on the estimate of their future realisation.

5 REVENUE FROM PRINCIPAL OPERATIONS

All of the below additional information on the income statement relates to continuing operations. Profits and losses from discontinued operations are disclosed in a separate note (Note 15).

(CZK '000)

	2009	2008
Revenue from passenger transportation:	6 624 609	6 338 466
– *Intrastate passenger transportation*	*4 687 633*	*4 579 185*
– *International passenger transportation*	*1 936 976*	*1 759 281*
Revenue from freight transportation	11 189 062	14 477 757
Revenue from other transportation	42 992	44 393
Revenue from securing railway routes - servicing the route	5 320 200	5 534 923
Payments from public service orderers:	12 360 844	8 904 186
– *Payment from the state budget*	*3 996 611*	*4 033 518*
– *Payment from the regional budget*	*8 364 233*	*4 870 668*
Other revenue related to the transportation	1 578 126	2 400 802
Total revenue from principal operations – continuing operations	**37 115 833**	**37 700 527**

Revenue from other transportation predominantly includes the revenue from railway transportation by other transporters and owners of railways and revenue from other transportation. The revenue from securing railway routes predominantly includes the revenue from services rendered to SŽDC due to servicing the route. Payments from public service orderers relate to regional and long-distance intrastate passenger transportation. Other revenue includes revenue from the lease of wagons and other revenue from freight transportation.

6 OTHER OPERATING INCOME

(CZK '000)

	2009	2008
Gain (loss) from property, plant and equipment and investment property	215 307	443 474
Gain (loss) from the sale of inventory	69 536	119 180
Sales of other services	1 502 390	1 257 441
Rental income	601 003	532 809
Compensations for deficits and damage	95 171	252 490
Acquisition of material	74 257	207 543
Other subsidies	6 300	4338
Other	408 610	461 700
Total other operating income – continuing operations	**2 972 574**	**3 278 975**

7 PURCHASED CONSUMABLES AND SERVICES

		(CZK '000)
	2009	2008
Traction costs	-4 274 090	-4 736 832
– *Traction fuel (diesel)*	*-1 659 706*	*-2 186 842*
– *Traction electricity*	*-2 614 384*	*-2 549 990*
Payment for the use of railway route	-4 028 320	-5 914 077
Other purchased consumables and services	-8 421 204	-9 187 452
– *Consumed material*	*-1 785 740*	*-2 056 930*
– *Consumed other energy*	*-776 379*	*-830 233*
– *Consumed fuel*	*-65 126*	*-33 553*
– *Repairs and maintenance*	*-559 239*	*-604 830*
– *Travel costs*	*-178 975*	*-190 386*
– *Telecommunication, data and postal services*	*-358 928*	*-376 723*
– *Other rental*	*-178 103*	*-146 415*
– *Rental for rail vehicles*	*-1 065 871*	*-1 251 608*
– *Transportation charges*	*-447 360*	*-487 590*
– *Services of dining and sleeping carriages*	*-126 226*	*-155 069*
– *Services associated with the use of buildings*	*-254 384*	*-242 689*
– *Operational cleaning of rail vehicles*	*-417 393*	*-376 231*
– *Border area services*	*-429 214*	*-464 972*
– *Advertising and promotion costs*	*-371 401*	*-504 296*
– *Other services*	*-1 406 865*	*-1 465 927*
Total purchased consumables and services – continuing operations	**-16 723 614**	**-19 838 361**

Other services predominantly include expenses related to the environment, commissions to ticket vendors, education, and similar charges.

8 EMPLOYEE BENEFIT COSTS

		(CZK '000)
	2009	2008
Payroll costs	-13 104 326	-13 300 382
Severance pay	-558 079	-265 096
Statutory social security and health insurance	-4 389 468	-4 667 663
Benefits resulting from the collective agreement	-231 188	-235 568
Other social costs	-711 127	-700 186
Other employee benefit costs	-18 833	-17 780
Total employees benefit costs – continuing operations	**-19 013 021**	**-19 186 675**

9 DEPRECIATION AND AMORTISATION

		(CZK '000)
	2009	2008
Depreciation of property, plant and equipment	-6 270 747	-6 419 436
Depreciation of investment property	- 44 372	- 44 251
Amortisation of intangible assets	-386 823	-404 073
Total depreciation and amortisation – continuing operations	**-6 701 942**	**-6 867 760**

10 OTHER OPERATING GAINS (LOSSES)

		(CZK '000)
	2009	2008
Change in provisions	16 838	66 163
Losses (reversal of losses) from impaired receivables	-85 925	15 359
Losses (reversal of losses) from impaired property, plant and equipment	383 918	-1 520 259
Write-down (reversal of the write-down) of inventories to their net realisable value	897	8 719
Taxes and fees	-28 412	-49 034
Other operating expenses	-655 349	-924 876
Total other operating gains (losses) – continuing operations	**-368 033**	**-2 403 928**

11 FINANCIAL EXPENSES

		(CZK '000)
	2009	2008
Interest on bank overdraft accounts and loans	-47 009	-78 766
Interest on finance lease payables	-156 874	-110 295
Other interest expenses	-153 664	-273 343
Less: amounts capitalised as part of the costs of an eligible asset	23 399	31 436
Unwinding of the discount of provisions	-20 114	-26 777
Other financial expenses	-3 494	-2 999
Total financial expenses – continuing operations	**- 357 756**	**-460 744**

Other interest expenses include interest on loans from ČSOB, loans from EUROFIMA and accrued interest on issued bonds.

12 OTHER GAINS (LOSSES)

		(CZK '000)
	2009	2008
Net foreign exchange gains (losses)	125 123	-67 846
Received dividends	38 859	8 308
Gain (loss) from the sale of securities and equity investments	420	108
Received interest	19 429	7 976
Gains from current financial assets	19 399	118 359
Banking fees	-21 541	-32 821
Actuarial gains (losses)	39 535	214 969
Other	-994	-5 543
Total other gains (losses) - continuing operations	**220 230**	**243 510**

13 INCOME TAXATION

13.1 Income Tax Reported in Profit or Loss

		(CZK '000)
	2009	2008
Current income tax for the period reported in profit or loss	-33 470	-125 571
Deferred tax recognised in the income statement	223 465	1 442 361
Other *)	- 1 048	-6 947
Total tax charge relating to continuing operations	**188 947**	**1 309 843**

*) Predominantly taxes paid from the individual tax base, eg received dividends

Reconciliation of the total tax charge for the period to the accounting profit:

		(CZK '000)
	2009	2008
Profit (loss) from continuing operations before tax	-2 851 404	-7 530 030
Income tax calculated using the statutory rate of 20%, or 21%	570 281	1 581 306
Effect of the unrecognised deferred tax asset	-176 934	-113 606
Other*)	-204 400	-157 857
Income tax reported in profit or loss	**188 947**	**1 309 843**

*) The effect of permanently non-tax expenses and income, effect of the change in the rate, tax calculated from the individual tax base

The tax rate used in the reconciliation is the corporate income tax rate which has to be paid by Czech legal entities from their taxable profits according to Czech tax laws.

13.2 Income Tax Recognised in Other Comprehensive Income

		(CZK '000)
	2009	2008
– Remeasurement of financial instruments recognised as cash flow hedging	-114 296	241 890
Total income tax recognised in other comprehensive income	**-114 296**	**241 890**

13.3 Deferred Tax

(CZK '000)

	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2008	**1 960 375**	**-4 048 232**	**165 100**	**8 285**	**8 275**	**0**	**-12 321**	**-1 918 518**
Deferred tax recognised in profit or loss:	-1 960 375	3 569 164	-145 909	-65 770	-7 643	14 841	38 053	1 442 361
– *of which current changes in the deferred tax*	*-1 100 404*	*2 671 199*	*-32 024*	*-40 432*	*4 654*	*14 841*	*38 133*	*1 555 967*
– *of which impairment *)*	*-859 971*	*897 965*	*-113 885*	*-25 338*	*-12 297*	*0*	*-80*	*-113 606*
Deferred tax reported in other comprehensive income	0	0	0	0	0	241 890	0	241 890
Balance at 31 Dec 2008	**0**	**-479 068**	**19 191**	**-57 485**	**632**	**256 731**	**25 732**	**-234 267**
Deferred tax recognised in profit or loss:	0	187 409	-8 534	25 048	6 967	-6 969	19 544	223 465
– *of which current changes in the deferred tax*	*591 089*	*-250 411*	*22 978*	*12 635*	*9 291*	*-6 969*	*21 786*	*400 399*
– *of which impairment *)*	*-591 089*	*437 820*	*-31 512*	*12 413*	*-2 324*	*0*	*-2 242*	*-176 934*
Deferred tax reported in other comprehensive income	0	0	0	0	0	-114 296	0	-114 296
Reclassification of the deferred tax to assets held for sale	0	59 737	17 077	0	0	0	1 726	78 540
Balance at 31 Dec 2009	**0**	**-231 922**	**27 734**	**-32 437**	**7 599**	**135 466**	**47 002**	**-46 558**
– *of which liability*	*0*	*-98 150*	*200*	*472*	*441*	*0*	*40 237*	*-56 800*
– *of which asset*	*0*	*-133 772*	*27 534*	*-32 909*	*7 158*	*135 466*	*6 765*	*10 242*

*) The decrease in the deferred tax asset recognised in the balance sheet (directly or indirectly as items decreasing deferred tax liabilities) to its recoverable value

As of the date of filing the due corporate income tax return for the 2009 taxation period (30 June 2010), the Parent Company records tax losses for the 2005, 2006, 2007 and 2009 taxation periods in the aggregate amount of CZK 7,668,714,332. Tax losses can be carried forward for five taxation periods subsequent to the period in which the relevant loss was assessed, ie between 2010 and 2014.

Given the low anticipated taxable profits of the Parent Company, the realisation of deferred tax assets is uncertain. For this reason, the Parent Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14 SEGMENT INFORMATION

14.1 Products and Services from which Reportable Segments Derive their Revenues

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Parent Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group's reportable segments under IFRS 8 are therefore as follows:

Passenger transportation – other information on passenger railway transportation is disclosed in Note 14.3.

Freight transportation – other information on freight railway transportation is disclosed in Note 14.3.
Management of operations – the Group provides this activity for the operator of the railway route – SŽDC, other information is provided in Note 30.

Administration of assets – the segment provides the administration and operations of real estate owned by the Group, including internal and external leases. Real estate predominantly includes station buildings and land surrounding the railroad.

Other – predominantly activities of less significant subsidiaries and overhead activities that are not allocated to other segments.

14.2 Segment Revenues and Expenses

The following is an analysis of the Group's results from continuing operations by reportable segment in the format in which the financial statement is presented to the Parent Company's management. Results of individual segments are reported in accordance with Czech Accounting Standards. Adjustments made for reporting under IFRS are provided as part of the reconciliation of the segment statement with the income statement.

(CZK million)

2009	Passenger transportation	Management of operations	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	Total
Revenue from principal operations							
Revenue from passenger transportation	6 525	0	0	0	0	100	6 625
Revenue from securing railway routes	0	5 320	0	0	0	0	5 320
Payments from orderers	12 360	0	0	0	0	0	12 360
Other	102	66	3	13 244	33	-637	12 811
	18 987	**5 386**	**3**	**13 244**	**33**	**-537**	**37 116**
Purchased consumables and services							
Traction costs	-2 710	0	0	-1 639	0	75	-4 274
Payment for the use of the railway route	-1 419	0	0	-2 561	0	-48	-4 028
Other purchased consumables and services	-6 053	-314	-586	-3 498	-2 728	4 757	- 8 422
	-10 182	**-314**	**-586**	**-7 698**	**-2 728**	**4 784**	**-16 724**
Staff costs							
Payroll costs	-5 603	-3 485	-242	-3 562	- 1386	616	-13 662
Social security and health insurance	-1 791	-1 118	-79	-1 090	-421	110	-4 389
Statutory social costs	-36	-36	-3	-210	-46	-380	-711
Statutory social costs - benefits arising from the collective agreement	-226	-144	-8	-5	-21	153	-251
	-7 656	**-4 783**	**-332**	**-4 867**	**-1 874**	**499**	**-19 013**
Other operating income and expenses	989	-5	880	414	3 897	-3 569	2 606
Intracompany income and expenses	-110	-58	191	0	-23	0	0
Overhead costs – operating	-962	-272	-54	0	1288	0	0
Depreciation and amortisation	-1 792	-13	-219	-1 076	-569	-3 033	-6 702
Other income and expenses	25	-3	22	-445	-151	607	55
Overhead costs – financial and other	-145	-48	-12	0	205	0	0
Profit (loss) for the period from continuing operations	**-846**	**-110**	**-107**	**-428**	**78**	**-1 249**	**-2 662**
Profit (loss) for the period from discontinued operations	0	0	0	0	13	82	95
Profit (loss) for the period	**-846**	**-110**	**-107**	**-428**	**91**	**-1 167**	**-2 567**

(CZK million)

2008	Passenger transportation	Management of operations	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	Total
Revenue from principal operations							
Revenue from passenger transportation	6 228	0	0	0	0	110	6 338
Revenue from securing railway routes	0	5 535	0	0	0	0	5 535
Payments from orderers	8 905	0	0	0	0	0	8 905
Other	113	116	2	17 095	15	-418	16 923
	15 246	**5 651**	**2**	**17 095**	**15**	**-308**	**37 701**
Purchased consumables and services							
Traction costs	-2 609	0	0	-2 168	0	40	-4 737
Payment for the use of the railway route	-1 712	0	0	-4 133	0	-69	-5 914
Other purchased consumables and services	-5 819	-440	-616	-4 498	- 3 027	5 213	-9 187
	-10 140	**-440**	**-616**	**-10 799**	**-3 027**	**5 184**	**-19 838**
Staff costs							
Payroll costs	-5 343	-3 578	-267	-3 721	- 1 257	600	-13 566
Social security and health insurance	-1 802	-1 192	-87	-1 261	-401	75	-4 668
Statutory social costs	-37	-37	-3	-190	-47	-386	-700
Statutory social costs - benefits arising from the collective agreement	-220	-148	-8	-7	- 23	153	-253
	-7 402	**-4 955**	**-365**	**-5 179**	**-1 728**	**442**	**-19 187**
Other operating income and expenses	-338	105	1 198	454	3 851	-4 395	875
Intracompany income and expenses	-314	-38	289	0	154	-91	0
Overhead costs – operating	-1 160	-376	-85	0	1 621	0	0
Depreciation and amortisation	-1 635	-12	-218	-978	-639	-3 386	-6 868
Other income and expenses	-304	-4	3	-223	5	1 620	1 097
Overhead costs – financial and other	38	12	3	0	-53	0	0
Profit (loss) for the period from continuing operations	**-6 009**	**-57**	**211**	**370**	**199**	**-934**	**-6 220**
Profit (loss) for the period from discontinued operations	0	0	0	0	7 466	-7 490	-24
Profit (loss) for the period	**-6 009**	**-57**	**211**	**370**	**7 665**	**-8 424**	**-6 244**

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS. Other information on adjustments between balances under Czech Accounting Standards and IFRS is provided in the Note 'First-time Adoption of IFRSs'.

14.3 Information on Principal Customers

The Parent Company was formed pursuant to, and its operations are governed by, general legal regulations governing joint stock companies and the Transformation Act (Act No. 77/2002 Coll.). The Transformation Act, inter alia, sets out the scope of the Company's assets and its role in operating railway routes and rendering transportation services in the public interest.

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation from the orderer (the State) is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. On 2 December 2009, the Parent Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

At the financial statements date, the Parent Company entered into contracts for public service commitments with all regions, or signed amendments to the existing contracts. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of ten years or more. Similarly as the contract with the State, they are governed by legal regulations that were in effect before the Regulation entered into effect.

A significant change in funding the regional transportation related to the fact that the regions and the State agreed on the additional funding of the regional railway transportation for 2009 in the total amount of CZK 3.2 billion. Before Governmental Resolution No. 686/2009 dated 1 June 2009 was adopted, the ordered regional railway transportation was not additionally funded in that approximate amount. Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years.

ČD Cargo, a.s. provides its services to a significant number of business partners. The most important local customers in terms of the sales volume include ČEZ, AWT SPEDI-TRANS, OKD, NH TRANS SE, MORAVIA STEEL, ČD Logistics, principal foreign customers are EXPRESS-INTERFRACHT Internationale Spedition Wien, AWT Hungary, Gefco SA Courbevoie, ATG Autotransportlogistics Eschborn, Železničná spoločnosť Cargo Slovakia, DB Schenker, Rail Cargo Austria, and PKP Cargo.

15 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

15.1 Spin-off of the Part of Business (SŽDC)

As of 1 July 2008, a contract for the sale of part of the business between the Parent Company and SŽDC was entered into. As of that date, 18 business units and a part of the section (organisational unit) of the Parent Company's CEO were spun-off from the Parent Company and transferred to SŽDC. The shareholder decided on the sale in 2007.

In place of the Parent Company, SŽDC secures the operability of the national and regional railway network and organises railway transportation on these routes, which includes the preparation of the railway timetable and fire brigade activities, i.e. independently performs certain railway operation activities. For this purpose, the Parent Company's relevant material, technological and human resources were transferred to SŽDC. Other railway operation activities (railway servicing and organising railway transport under extraordinary circumstances) including the relevant capacities remained the responsibility of the Parent Company, which delivers the activities to SŽDC, the railway operator, as a contractor.

The selling price stated in the contract for the sale of part of the Parent Company's business was CZK 11,852,101 thousand. The price was arrived at based on an expert's valuation of the part of the business. The sale included payables in the amount of CZK 1,758,641 thousand, which were paid by the Company based on a separate contract for the settlement of the payables to creditors. The table below presents total assets that were subject to the sale and that were removed from the Parent Company's accounts as of the sale date.

(CZK '000)

Assets	Carrying amount at 30 June 2008
Intangible fixed assets	47 249
Buildings and structures	6 973 893
Machinery and furniture and fixtures	912 313
Vehicles	1 001 683
Acquired tangible fixed assets	13 896
Land	2 451 992
Inventories	151 296
Receivables	181 634
Current financial assets	14 427
Other assets	16
Total	**11 748 399**

15.2 Sale of Traťová strojní společnost, a.s.

In 2009, the Parent Company decided to sell its equity share in Traťová strojní společnost, a.s. The entity was sold in 2010.

15.3 Analysis of the Result and Cash Flows from Discontinued Operations

The following table shows the common result from discontinued operations (ie part of the Company's business spun-off to SŽDC and TSS) as included in the income statement. The information on the profit and cash flows from discontinued operations for the prior period was adjusted to include operations classified as discontinued operations in the current period.

(CZK '000)

	2009	2008
Income	908 469	3 992 988
Expenses	-792 155	-4 110 749
Profit (loss) before tax	116 314	-117 761
Relevant income tax recognised in expenses	-20 478	-18 863
Profit (loss) from fair value remeasurement less costs of sale	0	0
Profit (loss) from discontinued operations	0	113 015
Relevant income tax recognised in expenses	0	0
Total profit (loss) from discontinued operations	**95 836**	**-23 609**
Cash flows from operating activities	149 796	-153 756
Cash flows from investment activities	-204 550	11 561 529
– *Payments for property, plant and equipment*	*-204 313*	*-295 336*
– *Payments for intangible assets*	*-2 530*	*0*
– *Proceeds from disposal of property, plant and equipment*	*1 595*	*4 764*
– *Net cash flows on disposal of a business part*	*0*	*11 852 101*
– *Received interest*	*698*	*0*
– *Received dividends*	*0*	*0*
Cash flows from financing activities	50 401	-1 758 641
Net cash flows from discontinued operations	**-4 353**	**9 649 132**

15.4 Assets Held for Sale

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Intangible assets	0	0	39 048
Land	30 680	51 846	2 571 819
Buildings	57 585	42 428	6 900 119
Individual movable assets	0	0	1 798 413
- Machinery, equipment, and furniture and fixtures	0	0	823 344
- Vehicles	0	0	975 069
Assets under construction	0	0	13 895
Assets relating to TSS	1 261 455	0	0
Total	**1 349 720**	**94 274**	**11 323 294**

Principal classes of assets and liabilities relating to TSS at the end of the reporting period were as follows:

	(CZK '000)
	31 Dec 2009
Intangible assets	3 422
Property, plant and equipment	741 773
Inventories	53 917
Trade receivables	354 966
Cash and cash equivalents	79 198
Tax receivables	19 047
Other financial assets	145
Other assets	8 987
Assets of TSS classified as held for sale	**1 261 455**
Trade payables	81 661
Provisions	17 150
Short-term bank loans	70 000
Tax payables	99 192
Other payables	40 556
Liabilities of TSS relating to assets held for sale	**308 559**
Net assets of TSS classified as held for sale	**952 896**

16 PROPERTY, PLANT AND EQUIPMENT

(CZK '000)

Cost	Balance at 1 Jan 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009
Land	6 420 830	45 924	65 088	-45 990	6 355 676	29 231	26 959	-57 296	6 300 652
Structures	16 902 487	1 090 545	130 340	-119 981	17 742 711	684 485	254 397	-173 512	17 999 287
Individual movable assets	81 640 004	9 555 922	4 682 627	0	86 513 299	11 440 205	5 272 105	-574 058	92 107 341
- Machinery, equipment, and furniture and fixtures	*4 381 397*	*379 533*	*408 702*	*0*	*4 352 228*	*695 797*	*269 965*	*-346 193*	*4 431 867*
- Vehicles	*74 210 447*	*7 417 787*	*4 211 301*	*0*	*77 416 933*	*7 862 392*	*4 843 819*	*-227 865*	*80 207 641*
- Vehicles acquired under finance leases	*2 857 242*	*1 741 431*	*30 806*	*0*	*4 567 867*	*2 836 378*	*109 469*	*0*	*7 294 776*
- Other	*190 918*	*17 171*	*31 818*	*0*	*176 271*	*45 638*	*48 852*	*0*	*173 057*
Other assets	*31 987*	*0*	*1 652*	*0*	*30 335*	*30*	*5 948*	*0*	*24 417*
Assets under construction	2 352 594	8 162 643	0	-9 212 768	1 302 469	8 497 723	0	-8 305 795	1 494 397
Prepayments	1 000 506	1 972 147	907 183	0	2 065 470	2 159 468	2 272 082	-11 485	1 941 371
Total	**108 348 408**	**20 827 181**	**5 786 890**	**-9 378 739**	**114 009 960**	**22 811 142**	**7 831 491**	**-9 122 146**	**119 867 465**

(CZK '000)

Accumulated depreciation	Balance at 1 Jan 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009
Structures	7 306 900	454 824	46 841	-73 023	7 641 860	467 123	122 069	-33 568	7 953 346
Individual movable assets	46 624 982	7 057 496	5 224 973	0	48 457 505	7 660 358	4 855 746	2 954	51 265 071
- Machinery, equipment, and furniture and fixtures	*2 994 791*	*395 634*	*408 385*	*0*	*2 982 040*	*523 936*	*349 598*	*0*	*3 156 378*
- Vehicles	*43 234 421*	*6 402 720*	*4 746 507*	*0*	*44 890 634*	*5 948 138*	*4 336 591*	*2 954*	*46 505 135*
- Vehicles acquired under finance leases	*240 100*	*234 044*	*30 806*	*0*	*443 338*	*1 123 241*	*109 469*	*0*	*1 457 110*
- Other	*155 670*	*25 098*	*39 275*	*0*	*141 493*	*65 043*	*60 088*	*0*	*146 448*
Other assets	24 115	1 202	1 580	0	23 737	968	5 863	0	18 842
Total	**53 955 997**	**7 513 522**	**5 273 394**	**-73 023**	**56 123 102**	**8 128 449**	**4 983 678**	**-30 614**	**59 237 259**

(CZK '000)

Impairment	Balance at 1 Jan 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009
Land	3 277	0	0	0	3 277	1 022	0	-485	3 814
Structures	56 033	8 771	18 396	-62	46 346	14 087	1 135	-269	59 029
Individual movable assets	326 516	1 682 611	326 512	0	1 682 615	38 769	428 175	0	1 293 209
- Machinery, equipment, and furniture and fixtures	*1 915*	*1 929*	*1 911*	*0*	*1 933*	*238*	*1 933*	*0*	*238*
- Vehicles	*324 601*	*1 680 682*	*324 601*	*0*	*1 680 682*	*38 531*	*426 242*	*0*	*1 292 971*
Total	**385 826**	**1 691 382**	**344 908**	**-62**	**1 732 238**	**53 878**	**429 310**	**-754**	**1 356 052**

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 40, IFRS 5), in assets under construction, these include assets put into use.

(CZK '000)

Net book value	Balance at 1 Jan 2008	Balance at 31 Dec 2008	Balance at 31 Dec 2009
Land	6 417 553	6 352 399	6 296 838
Buildings	9 539 554	10 054 505	9 986 912
Individual movable assets	34 688 506	36 373 179	39 549 061
- Machinery, equipment, and furniture and fixtures	*1 384 691*	*1 368 255*	*1 275 251*
- Vehicles	*30 651 425*	*30 845 617*	*32 409 535*
- Vehicles acquired under finance leases	*2 617 142*	*4 124 529*	*5 837 666*
- Other	*35 248*	*34 778*	*26 609*
Other assets	7 872	6 598	5 575
Assets under construction	2 352 594	1 302 469	1 494 397
Prepayments	1 000 506	2 065 470	1 941 371
Total	**54 006 585**	**56 154 620**	**59 274 154**

Principal additions in the years ended 31 December 2009 and 2008 include the acquisition of railway vehicles as part of the renewal of the Parent Company's rolling stock.

16.1 Impairment Losses Recognised in the Reporting Period

Vehicles predominantly include railway vehicles (locomotives, wagons, other railway vehicles) used for operating railway transportation. Pursuant to the inventory count and analyses, items of assets were identified for which there is a significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell. The principal impairment loss as of 31 December 2009 and 2008 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 1,154,680 thousand and CZK 1,433,000 thousand, respectively.

Impairment losses are included in other operating expenses in the income statement.

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	20 – 50
Structures	20 – 50
Locomotives	20 – 25
Passenger coaches	20
Wagons	25 – 33
Machinery and equipment	8 – 20
Optical fibres	35

16.2 Assets Pledged as Collateral

The Parent Company holds assets at the net book value of CZK 3,741,925 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 2,606,156 thousand, the Ampz passenger coaches amounted to CZK 479,638 thousand and the Bmz passenger coaches amounted to CZK 656,131 thousand. The pledge was established in favour of EUROFIMA.

17 INVESTMENT PROPERTY

Set out below is an analysis of investment property:

(CZK '000)

	2009	2008
Balance at the beginning of the year	2 271 001	2 267 935
Additions from subsequent capitalised expenses	13 530	49 530
Disposals	0	-108
Disposals, annual depreciation	-44 297	-44 551
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	3 177	24 090
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-47	-12 596
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-38 849	-14 339
Change in the value	8	981
Transfers of assets held for sale (from IFRS 5 to IAS 40)	0	59
Balance at the end of the year	**2 204 523**	**2 271 001**

(CZK '000)

	Balance at 1 Jan 2008	Balance at 31 Dec 2008	Balance at 31 Dec 2009
Cost	2 880 880	2 936 323	2 893 707
Accumulated depreciation	610 222	663 580	687 449
Impairment	2 723	1 742	1 735
Net book value	**2 267 935**	**2 271 001**	**2 204 523**

The Group includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Parent Company used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2009 and 2008 is CZK 3,168,633 thousand and CZK 3,195,526 thousand, respectively.

The Parent Company determines the depreciation method and useful lives of investment property on the same basis as for property included in property, plant and equipment.

18 INTANGIBLE ASSETS

(CZK '000)

Cost	Balance at 1 Jan 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009
Development costs	102 652	1 577	191	0	104 038	0	166	0	103 872
Software	1 944 114	314 603	543 964	0	1 714 753	68 383	85 598	-170 554	1 526 984
Valuable rights	7 617	209 566	0	0	217 183	95 000	8 327	168 664	472 520
Other assets	2 134	271	182	0	2 223	241	0	-440	2 024
Assets under construction	221 138	396 983	0	-503 737	114 384	301 042	0	- 231 634	183 792
Prepayments	0	7 565	341	0	7 224	16644	23868	0	0
Total	**2 277 655**	**930 565**	**544 678**	**-503 737**	**2 159 805**	**481 310**	**117 959**	**- 233 964**	**2 289 192**

(CZK '000)

Accumulated amortisation	Balance at 1 Jan 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009
Development costs	102 559	59	191	0	102 427	565	166	0	102 826
Software	1 183 735	128 138	279 392	0	1 032 481	257 981	51 384	-28 251	1 210 827
Valuable rights	3 984	181 215	757	0	184 442	39 543	7 706	28 251	244 530
Other assets	1 518	257	182	0	1 593	292	0	0	1 885
Assets under construction	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0
Total	**1 291 796**	**309 669**	**280 522**	**0**	**1 320 943**	**298 381**	**59 257**	**0**	**1 560 068**

(CZK '000)

Impairment	Balance at 1 Jan 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009
Software	0	38 468	0	0	38 468	0	38 468	0	0
Total	**0**	**38 468**	**0**	**0**	**38 468**	**0**	**38 468**	**0**	**0**

(CZK '000)

Net book value	Balance at 1 Jan 2008	Balance at 31 Dec 2008	Balance at 31 Dec 2009
Development costs	93	1 611	1 046
Software	760 379	643 804	316 157
Valuable rights	3 633	32 741	227 990
Other assets	616	630	139
Assets under construction	221 138	114 384	183 792
Prepayments	0	7 224	0
Total	**985 859**	**800 394**	**729 124**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the income statement. The Group used useful lives of 1.5 – 6 years in calculating amortisation.

Intangible fixed assets additionally include software for the monitoring of trains, train traffic management and expenses relating to the SAP R/3, IS OPT, SENA, and PARIS accounting software. Additions to valuable rights predominantly include licences for access rights for software.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure relating to the SAP R/3, ISOŘ, IS-PRM, IS-ADPV, In-cards, and IS-KADR software modules.

19 INVESTMENTS IN ASSOCIATES

Name of the entity	Value of investment as of 31 Dec 2009	Value of investment as of 31 Dec 2008	Value of investment as of 1 Jan 2008	Principal activity	Ownership percentage
JLV, a. s.	115 367	115 885	109 703	Catering services	38.79%

Summary of financial information on JLV, a. s.:

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Total assets	367 092	352 454	340 149
Total liabilities	69 678	53 705	57 337
Net assets	297 414	298 749	282 812
Share of the Company in associates' net assets	**115 367**	**115 885**	**109 703**

(CZK '000)

	2009	2008
Total income	357 632	356 959
Profit for the period	11 150	11 410
Share of the Company in associates' profit for the period	**4 325**	**4 426**

20 INVENTORIES

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Spare parts for machinery and equipment	79 089	301 972	309 383
Spare parts and other components for rail vehicles and locomotives	693 673	312 968	231 349
Other machinery, tools and equipment and their spare parts	199 094	299 610	224 184
Fuels, lubricants and other oil products	26 081	30 373	36 388
Work clothes, work shoes, protective devices	235 203	239 936	244 258
Other	117 020	155 645	298 999
Total cost	**1 350 160**	**1 340 504**	**1 344 561**
Write-down of inventories to their net realisable value	-70 424	-66 667	-70 566
Total net book value	**1 279 736**	**1 273 837**	**1 273 995**

The Parent Company's inventories are gathered in the Supply Centre in Česká Třebová.

21 TRADE RECEIVABLES

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Long-term	24 181	2 153	1 436
Short-term	3 760 040	5 264 167	5 319 667
Total	**3 784 221**	**5 266 320**	**5 321 103**

21.1 Aging of Trade Receivables

(CZK '000)

	Category	Before due date	Past due date (days) 0 - 90 days	91 - 180	181 - 365	366 - 730	731 and more	Total past due date	Total
31 Dec 2009	Gross	3 447 465	191 981	68 286	66 373	81 674	102 056	510 370	3 957 835
	Allowances	-611	-30 314	-12 716	-28 943	-56 454	-44 576	-173 003	-173 614
	Net	**3 446 854**	**161 667**	**55 570**	**37 430**	**25 220**	**57 480**	**337 367**	**3 784 221**
31 Dec 2008	Gross	4 962 941	219 964	54 650	76 268	18 032	55 556	424 470	5 387 411
	Allowances	-594	-26	-8 283	-45 589	-12 746	-53 853	-120 497	-121 091
	Net	**4 962 347**	**219 938**	**46 367**	**30 679**	**5 286**	**1 703**	**303 973**	**5 266 320**
1 Jan 2008	Gross	4 513 903	609 759	56 863	71 446	74 020	114 148	926 236	5 440 139
	Allowances	-13 587	-6 233	-18 557	-11 546	-20 923	-48 190	-105 449	-119 036
	Net	**4 500 316**	**603 526**	**38 306**	**59 900**	**53 097**	**65 958**	**820 787**	**5 321 103**

Receivables which are past their due dates by more than 181 days and are not provisioned consist primarily of receivables of ČD Cargo, a. s. from foreign railway companies which are not treated as distressed receivables.

21.2 Movements in Allowances for Doubtful Receivables

(CZK '000)

	2009	2008
Balance at the beginning of the year	121 091	119 036
Recognition of allowances	125 390	376 812
Use of allowances	-72 867	-374 757
Balance at the end of the year	**173 614**	**121 091**

22 OTHER FINANCIAL ASSETS

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Financial assets available for sale	376 217	381 150	375 536
Receivables from finance leases	114 149	117 615	2 598
Other	26 177	35 641	10 443
Total non-current financial assets	**516 543**	**534 406**	**388 577**
Receivables from finance leases	3 466	193	30
Other	83 911	71 068	28 428
Total current financial assets	**87 377**	**71 261**	**28 458**
Total	**603 920**	**605 667**	**417 035**

22.1 Receivables from Finance Leases

The Parent Company has leased the station buildings at the Brno - hlavní nádraží and Prague – Dejvice stations under finance leases.

(CZK '000)

	Minimum lease payments 31 Dec 2009	31 Dec 2008	1 Jan 2008	Present value of minimum lease payments 31 Dec 2009	31 Dec 2008	1 Jan 2008
Under 1 year	13 921	10 868	120	3 466	193	30
From 1 to 5 years	14 561	18 011	484	- 32 551	-26 366	138
5 years and more	470 331	480 803	4 212	146 700	143 981	2 460
Total	**498 813**	**509 682**	**4 816**	**117 615**	**117 808**	**2 628**
Less: unrealised financial income	-381 198	-391 874	-2 188			
Present value of receivables of minimum lease payments	**117 615**	**117 808**	**2 628**	**117 615**	**117 808**	**2 628**
In the statement of financial position as:						
– Other current financial assets				3 466	193	30
– Other non-current financial assets				114 149	117 615	2 598
Total				**117 615**	**117 808**	**2 628**

The fair value of receivables from finance leases approximates their carrying amount. Negative values in certain lines of the table indicate that lease payments in the period are lower than unrealised financial income, hence the present value of the minimum lease payments increases in this period.

23 OTHER ASSETS

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Total non-current assets	**232 827**	**46 331**	**37 917**
Prepayments made	205 545	147 760	286 591
Tax receivables (except for the corporate income tax)	308 089	424 500	173 355
Prepaid expenses	120 172	109 663	61 196
Other	102 948	314 079	343 807
Total current assets	**736 754**	**996 002**	**864 949**
Total	**969 581**	**1 042 333**	**902 866**

24 EQUITY

24.1 Share Capital

The Parent Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

24.2 Reserve and Other Funds

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Share premium	16 439 853	16 439 853	16 439 853
Statutory reserve fund	184 523	33 343	5 837
Fund from cash flow hedging	-604 780	-1 009 465	0
Other	1 046	3 057	0
Non-controlling interests	-12 556	-10 121	-7 770
Total	**16 008 086**	**15 456 667**	**16 437 920**

Allocations are made to the statutory reserve fund in accordance with the national legislation.

24.2.1 Fund from Cash Flow Hedging

(CZK '000)

	2009	2008
Balance at the beginning of the year	-1 009 465	0
Profit (loss) from cash flow hedging	521 974	-1 295 784
– *currency forwards*	*475 163*	*-1 258 338*
– *commodity forwards*	*46 811*	*-37 446*
Relating income tax	-114 856	250 331
Reclassifications to profit or loss	-2 995	44 428
– *currency forwards*	*-29 633*	*20 746*
– *commodity forwards*	*26 638*	*23 682*
Relating income tax	562	-8 440
Balance at the year-end	**-604 780**	**-1 009 465**

The fund from cash flow hedging includes accumulated profits and losses from the effective cash flow hedges. The accumulated deferred profit or loss from hedging derivatives is reclassified to profit or loss only when the hedging transaction impacts the profit or loss or is included as an adjustment of the basis in the hedged non-financial item in accordance with relevant accounting policies.

Profits and losses not classified during the year from the equity are included under 'Other gains (losses)' in the income statement.

25 LOANS AND BORROWINGS

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Short-term bank loans	271 195	275 960	272 784
Payables from finance leases	668 295	520 517	314 296
Overdraft accounts	32 783	1 648 758	1 086 683
Total short-term	**972 273**	**2 445 235**	**1 673 763**
Payable to EUROFIMA	4 366 672	4 443 396	4 392 247
Issued bonds	2 984 399	0	0
Other – received loans and borrowings – long-term	17 541	0	0
Loan from ČSOB – long-term	1 084 780	1 379 800	1 636 700
Payables from finance leases	4 242 098	3 236 217	2 094 779
Total long-term	**12 695 490**	**9 059 413**	**8 123 726**
Total	**13 667 763**	**11 504 648**	**9 797 489**

In 2004, the Parent Company received a long-term loan from EUROFIMA to finance the purchase of railway vehicles. This loan was increased in the year ended 31 December 2006 by EUR 30 million and by another EUR 30 million in the year ended 31 December 2007. This loan is collateralised by a state guarantee and its interest rate is determined based on the Pribor/Euribor reference rate plus a usual market markup. The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2009 and 2008 was CZK 23,399 thousand and CZK 31,436 thousand, respectively. The maturity of the loan is 10 years for each individual tranche.

For the first time in its history, the Company issued bonds with three-year maturity and fixed coupon of 5% p.a., repayable annually, on 14 December 2009 to increase its investment sources. The issue amounted to CZK 2 billion. The issue was not listed and was intended for private investors. The principal manager of the issue was ČSOB. The issue rate as of the issue date was 98.38%.

The Parent Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium include Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The loan has been provided to finance the renovation of the Parent Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. The interest rate of the loan is determined based on the Pribor/Euribor reference rates plus a usual market markup. The Parent Company makes repayments on a semi-annual basis on 25 May and 25 November each year. The final maturity date of the loan is 25 November 2014.

The subsidiary DPOV Přerov, a. s. concluded a long-term investment loan provided by KB, a. s. Přerov. As of 31 December 2009, CZK 17,541 thousand was drawn. The loan was collateralised by a Letter of Comfort from the Parent Company.

In the year ended 31 December 2008, the subsidiary ČD-Telematika a.s. concluded a long-term loan for the financing of the purchase of software licences. The provider of the loan is ČSOB leasing. The contract was discontinued as of 28 December 2009, the overpayment was refunded in February 2010.

On 13 July, the subsidiary ČD Cargo, a.s. started to issue debt bills of exchange. As of 31 December 2009, the total volume of these transactions amounted to CZK 1,013,500 thousand with the 6-month maturity. The due interest is amortised over six months.

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

The Group breached no loan covenants in the reporting period.

25.1 Finance Lease Payables

The finance lease applies to railway vehicles, software, vehicles and equipment for computers and servers. The value of finance leases is as follows:

(CZK '000)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2009	31 Dec 2008	1 Jan 2008	31 Dec 2009	31 Dec 2008	1 Jan 2008
Less than 1 year	850 676	660 173	406 466	668 295	520 517	314 296
From 1 to 5 years	3 102 410	2 548 501	1 448 111	2 644 994	2 271 067	1 291 276
5 years and more	1 751 924	1 020 360	831 212	1 597 104	965 150	803 503
Total	**5 705 010**	**4 229 034**	**2 685 789**	**4 910 393**	**3 756 734**	**2 409 075**
Less future finance expenses	-794 617	-472 300	-276 714			
Present value of minimum lease payments	**4 910 393**	**3 756 734**	**2 409 075**	**4 910 393**	**3 756 734**	**2 409 075**
In the statement of financial position as:						
– short-term loans				668 295	520 517	314 296
– long-term loans				4 242 098	3 236 217	2 094 779
Total				**4 910 393**	**3 756 734**	**2 409 075**

The fair value of finance lease payables approximates their carrying amount.

26 PROVISIONS

(CZK '000)

	Balance at 1 Jan 2008	Charge	Use	Balance at 31 Dec 2008	Charge	Use	Balance at 31 Dec 2009
Provision for discounts and refunds	32 721	43 530	56 151	20 100	9 752	20 100	9 752
Provision for rents	14 152	10 819	14 153	10 818	15 220	15 385	10 653
Provision for legal disputes	12 660	42 191	21 266	33 585	35 734	33 585	35 734
Provision for outstanding vacation days	94 531	169 582	143 473	120 640	77 294	120 640	77 294
Provision for removal of the environmental burden	0	0	0	0	226 737	0	226 737
Provisions for employees bonuses	756 394	47 375	235 567	568 202	211 767	231 188	548 781
Other provisions	55 233	83 053	118 694	19 592	2 267	19 592	2 267
Total provisions	**965 691**	**396 550**	**589 304**	**772 937**	**578 771**	**440 490**	**911 218**
– long-term	467 800			370 644			573 437
– short-term	497 891			402 293			337 781

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 5%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the income statement. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

In the first half of 2009, the Parent Company evaluated the results of the environmental audit performed in selected localities. The audit highlighted the need to provide the clean-up of the areas in Brodek u Přerova between 2010 and 2012. The budget of the clean-up is CZK 226,737 thousand and is planned to take three years. The funding of CZK 180,962 thousand will be provided from the Environmental Operational Programme in the form of an EU subsidy – Cohesion Fund and CZK 10,645 thousand will be provided from the Czech state budget, Chapter 15. A provision was recognised in respect of these aggregate costs in the consolidated financial statements for the year ended 31 December 2009; the claim for the subsidy is reported under 'Other non-current assets'.

27 TRADE PAYABLES

(CZK '000)

Year	Category	Before due date	Past due date (days) 0 – 90	91 – 180	181–365	365-730	731 and more	Total past due date	Total
31 Dec 2009	Short-term	7 731 855	551 956	6 588	5 978	3 647	7 393	575 562	8 307 417
31 Dec 2008	Short-term	7 331 805	641 579	93 462	31 060	5 375	13 663	785 139	8 116 944
1 Jan 2008	Short-term	6 296 348	1 269 421	12 829	2 161	3 779	13 741	1 301 931	7 598 279

The Group carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

Supplier invoices typically mature in 90 days.

28 OTHER FINANCIAL LIABILITIES

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Long-term received prepayments	163 044	306 107	327 924
Financial derivatives	376 099	0	0
Other long-term liabilities	1 561 929	1 317 857	619 846
Total long-term	**2 101 072**	**1 623 964**	**947 770**
Other	712	88 177	167 663
Financial derivatives	386 878	1 327 784	0
Total short-term	**387 590**	**1 415 961**	**167 663**
Total	**2 488 662**	**3 039 925**	**1 115 433**

Other long-term liabilities predominantly include repayments according to repayment schedules, assignment of liabilities and rebilled liabilities.

29 OTHER LIABILITIES

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Total long-term	**101 260**	**106 876**	**112 994**
Received prepayments	241 290	248 144	203 059
Payables from the transition period (SŽDC-transformation)	435 865	436 108	436 950
Payables to employees	1 595 895	1 662 886	1 682 849
Social security and health insurance payables	517 245	530 087	595 054
Subsidies	31 098	22 642	13 886
Other	1 265 053	735 581	928 020
Total short-term	**4 086 446**	**3 635 448**	**3 859 818**
Total	**4 187 706**	**3 742 324**	**3 972 812**

Other short-term liabilities predominantly include leases received in advance, tax withheld from employees and other deferred income.

30 RELATED PARTY TRANSACTIONS

30.1 Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2009, 31 December 2008 and 1 January 2008.

30.2 Bonuses to Key Management Members

Directors and other members of key management received the following bonuses in the reporting period:

		(CZK '000)
	2009	2008
Short-term employee benefits	193 966	163 066
Post-employment benefits	2 225	0
Other long-term employees benefits	1 331	1 285
Total	**197 522**	**164 351**

In addition to the possibility of using reduced fares, the members of the Parent Company's statutory and supervisory bodies were provided with cash bonuses of CZK 20,633 thousand and CZK 19,580 thousand in 2009 and 2008, respectively. Management of the Parent Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

30.3 Transactions with SŽDC

The Parent Company is wholly owned by the state. In accordance with the exemption listed in paragraphs 25 – 27 of IAS 24 (revised), the Parent Company does not include other state-owned entities among related parties. The table below presents only transactions with SŽDC as a result of SŽDC's significant position in the Parent Company's activities.

In the year ended 31 December 2009, the Parent Company secured the servicing of the railway route on behalf of the operator, SŽDC, s.o. The contract for the servicing of railway routes was entered into in the summer of 2008 and is also applicable with its amendments in 2009.

The Group operates the railway route and it pays a regulated fee to SŽDC for the use of the railway route. Since 1 January 2009, the fee has significantly decreased (almost by 20%).

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2009 and 2008 were as follows:

		(CZK '000)
2009	Expenses	Income
Securing railway routes	0	5 320 200
Use of railway route and allocated capacity of the railway route – passenger transportation	1 467 762	0
Use of railway route and allocated capacity of the railway route – freight transportation	2 560 443	0
Consumed traction electricity	2 614 384	0
Other	192 298	31 979
Total	**6 834 887**	**5 352 179**

		(CZK '000)
2008	Expenses	Income
Securing railway routes – operations management	0	5 534 922
Securing railway routes - maintenance of operability	0	3 151 614
Use of railway route and allocated capacity of the railway route – passenger transportation	1 776 838	0
Use of railway route and allocated capacity of the railway route – freight transportation	4 498 762	0
Consumed traction electricity	2 549 990	0
Other	130 950	77 824
Total	**8 956 540**	**8 764 360**

Income from securing railway routes is reported under 'Revenue from principal operations'.

The costs of using railway routes, the allocated capacity of the railway route and consumed electricity are reported under 'Purchased consumables and services'.

Given the above activities, the Group records receivables from and payables to SŽDC. The total amount of receivables reported in the line 'Trade receivables' is CZK 464,466 thousand as of 31 December 2009 (CZK 923,023 thousand as of 31 December 2008 and CZK 596,641 thousand as of 1 January 2008). The total amount of payables reported in the line 'Trade payables' is CZK 2,177,282 thousand as of 31 December 2009 (CZK 2,150,767 thousand as of 31 December 2008 and CZK 653,874 thousand as of 1 January 2008).

In addition, the Group reports an estimated payable in the line "Trade payables" arising from unbilled supplies from SŽDC in the amount of CZK 27,003 thousand as of 31 December 2009 (CZK 120,008 thousand as of 31 December 2008 and CZK 216,377 thousand as of 1 January 2008). The estimated receivable arising from the billing of securing railway routes reported in the line 'Trade receivables' amounted to CZK 8,053 thousand as of 31 December 2009 (CZK 78,354 thousand as of 31 December 2008 and CZK nil as of 1 January 2008).

31 CASH AND CASH EQUIVALENTS

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash flows statement can be reconciled to the relevant items in the statement of financial position as follows:

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Cash on hand and cash in transit	53 390	43 720	106 252
Cash at bank	1 080 006	749 605	849 287
Depository bills of exchange	1 200 000	4 012 508	0
Total	**2 333 396**	**4 805 833**	**955 539**

32 CONTRACTS FOR OPERATING LEASES

32.1 The Group as a Lessor

Assets under operating leases which are reported off balance sheet as of 31 December 2009, 31 December 2008 and 1 January 2008 amount to CZK 105,161 thousand, CZK 31,396 thousand and CZK 31,773 thousand, respectively. Assets include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the years ended 31 December 2009 and 2008 amounted to CZK 106,654 thousand and CZK 100,061 thousand, respectively.

The Group as a lessor has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

32.2 The Group as a Lessee

Operating leases applies to investment property held by the Group with various lease periods.

Revenue from the lease of property that the Company acquired in 2009 from investment property based on the operating leases amount to CZK 570,922 thousand (2008: CZK 513,677 thousand).

Direct operating expenses relating to investment property for the period amounted to CZK 189,655 thousand (2008: CZK 172,710 thousand).

Income from operating leases of movable assets in 2009 amounts to CZK 72,597 thousand (2008: CZK 61,279 thousand).

The Group as a lessee concluded no irrevocable contracts for operating leases.

33 CONTRACTUAL OBLIGATIONS RELATING TO EXPENSES

As of the consolidated balance sheet date, the Group concluded contracts for the purchase of land, buildings and equipment and investment property in the amount of CZK 9,378,650 thousand, of which CZK 6,705,925 thousand relates to supplies contracted for 2010 and CZK 3,032,725 thousand relates to supplies contracted for the following years. A significant portion of the obligations relating to expenses (CZK 9,075,482 thousand) include investments in railway vehicles.

34 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the year ended 31 December 2009, two bank guarantees were renewed for the appropriate performance of the Contract for the Public Services in Railway Transport in the Public Interest to Provide for Transportation Needs of the State on the:

- Pardubice – Liberec railway track, in respect of the contract entitled "Ordered Transportation between Pardubice and Liberec", CZK 15 million, maturity on 11 December 2010; and

- Plzeň – Most railway track, in respect of the contract entitled "Ordered Transportation between Plzeň and Most", maturity on 11 December 2010, CZK 15 million.

ČD Cargo reports three bank guarantees in favour of WestInvest Waterfront Towers s.r.o. for the compliance with all liabilities and obligations of a lessee resulting from the lease contract with WestInvest Waterfront Towers s.r.o. – Lighthouse in the amount of EUR 207 thousand, EUR 3,780 and EUR 577. The guarantees are valid until 26 February 2010, 26 February 2010 and 11 February 2010, respectively.

In addition, ČD Cargo reports a bank guarantee in favour of HYPARKOS, s.r.o. which is held to cover the situation where ČD Cargo would not comply with the obligations stipulated in the Contract for the Lease of Buildings and Land in the Lovosice Logistics Centre. The guarantee amounts to CZK 16,517 thousand and is valid until 8 July 2010.

ČD Cargo is conducting negotiations with SŽDC regarding the price of the purchased traction electricity during the 2009 reporting period. These negotiations have not been completed as of the balance sheet date. The opinions of the counterparties differ, SŽDC is seeking an additional payment of CZK 240 million. In accordance with the external legal opinion, ČD Cargo accounted for the costs of consumed traction electricity at the average price level of 2008 in 2009. This price is the minimum market price at the moment when the electricity was purchased.

35 FINANCIAL INSTRUMENTS

35.1 Capital Risk Management

The Group manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance.

The capital structure of the Group consists of net debt (borrowings offset by cash and bank balances) and equity (comprising issued capital, reserves and retained earnings).

The Group is not subject to any externally imposed capital requirements.

The Board of Directors and the Supervisory Board of the Parent Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Parent Company's statutory bodies, ie the Board of Directors and the Supervisory Board.

35.2 Significant Accounting Policies

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

35.3 Categories of Financial Instruments

(CZK '000)

Financial assets	31 Dec 2009	31 Dec 2008	1 Jan 2008
Cash and bank accounts	1 133 396	793 325	955 539
Held-to-maturity investments (term deposits and bills of exchange)	1 200 000	4 012 508	0
Loans and receivables	4 011 924	5 490 837	5 362 602
Available-for-sale financial assets	376 217	381 150	375 536
Total	**6 721 537**	**10 677 820**	**6 693 677**

(CZK '000)

Financial liabilities	31 Dec 2009	31 Dec 2008	1 Jan 2008
Derivative instruments in designated hedge accounting relationships	671 543	1 251 356	0
Other financial derivative instruments	91 433	76 428	0
Measured at amortised cost	23 700 866	21 333 733	18 511 201
Total	**24 463 842**	**22 661 517**	**18 511 201**

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets are as follows:

(CZK '000)

Category of financial assets	2009	2008	Reported in the income statement line
Interest on cash in bank accounts	9 451	10 142	Other gains (losses)
Interest on investments held to maturity (term deposits and bills of exchange)	19 399	118 359	Other gains (losses)
Dividends from available-for-sale financial assets	38 859	8 308	Other gains (losses)
Total	**67 709**	**136 809**	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No impairment was noted in respect of any other class of financial assets.

35.4 Financial Risk Management Objectives

The Group's Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

35.5 Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation and received loans. The Group seeks to maintain the proportion of long-term loans and borrowings in the foreign currency at the maximum level of 50%. Exchange rate exposures are managed within approved policy parameters utilising currency forward or option contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

(CZK '000)

31 Dec 2009	EUR	USD	Other	Total
Financial assets	1 713 910	6 875	1 657	1 722 442
Financial liabilities	-7 119 759	-6 810	-694	-7 127 263
Total	**-5 405 849**	**65**	**963**	**-5 404 821**

(CZK '000)

31 Dec 2008	EUR	USD	Other	Total
Financial assets	972 532	666	16 991	990 189
Financial liabilities	-7 062 112	-1	-4 868	-7 066 981
Total	**-6 089 580**	**665**	**12 123**	**-6 076 792**

(CZK '000)

1 Jan 2008	EUR	USD	Other	Total
Financial assets	1 114 744	157	59 797	1 174 698
Financial liabilities	-7 226 286	-791	-2 112	-7 229 189
Total	**-6 111 542**	**-634**	**57 685**	**-6 054 491**

35.5.1 Foreign Currency Sensitivity Analysis

Exposure to currency risks is measured by a sensitivity analysis. The Company is exposed to the currency risk due to the change in the fair value of concluded currency derivatives and the change in the value of unhedged unsettled monetary items denominated in foreign currencies.

If the Czech currency were weakened by one crown in relation to other relevant foreign currencies, the fair value of currency derivatives in 2009 and 2008 would be lower by CZK 292,451 thousand and CZK 440,542 thousand, respectively, due to a change in the valuation of the derivatives.

The following table details the Group's sensitivity to the strengthening and weakening of the Czech currency by CZK 1 against the relevant foreign currencies. The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies and adjusts their translation at the year-end. A positive number indicates an increase in the profit and other comprehensive income. A negative number indicates a decrease in the profit and other comprehensive income.

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Profit (loss) for the period	205 251	188 574	201 890
Other comprehensive income	-288 207	-433 607	0

35.5.2 Currency Forwards

To hedge the foreign currency differences in respect of the strengthening of the Czech crown, ČD Cargo, a.s. entered into currency option strategies – a combination of purchased put options and sold call options in 2008 and 2008. This hedging was entered into for the period of 39 months until December 2011.

The table shows outstanding foreign currency forwards and options for the sale of EUR as of:

(CZK '000)

Sale of EUR	Average currency exchange rate	Foreign currency	Nominal value	Fair value
31 Dec 2009	23.83	EUR	294 000	-797 406
31 Dec 2008	23.83	EUR	441 000	-1 290 338
1 Jan 2008	0	EUR	0	0

The total impact of currency derivatives hedging anticipated future transactions recognised in the cash flow hedge reserve as of 31 December 2009 would be positive, amounting to CZK 492,935 thousand (negative in the amount of CZK 1,237,592 thousand in 2008). The total loss on these derivatives recognised due to the ineffectiveness of the hedge in the profit for the year ended 31 December 2009 amounted to CZK 44,638 thousand (a loss of CZK 52,746 thousand in 2008).

35.6 Interest Rate Risk Management

The Group is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Group manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, ie the proportion of long-term loans and borrowings with floating interest rates should not exceed the maximum level of 50%.

35.6.1 Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to underlying interest rates. The analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates.

The following table shows the impact on the Group's profit or loss if interest rates had been 200 basis points higher and all other variables were held constant:

(CZK '000)

	31 Dec 2009	31 Dec 2008
Loans and leases with variable rates	-7 687	-9 361
Long-term provisions	43 670	46 260
Total	**35 983**	**36 899**

Sensitivity of loans and leases with variable rates is shown as an increase in interest expenses for the year ended as of the respective dates.

Sensitivity of issued fixed-rate bonds is shown as a decrease in their amortised cost as of the respective dates as a result of an increase in the effective interest rate.

Sensitivity of long-term provisions is shown as a decrease in their present value as of the respective dates as a result of a change in the discount rate.

35.7 Commodity Risk

The Group is exposed to the risk of changes in the price of commodities, specifically oil and electricity. The Group manages this risk using the combination of several instruments as follows:

In the event of an increase in the price of the commodities listed above of more than 10% the Parent Company has the possibility of asking the regions and the state for increased payments for public transportation.

The Group negotiates a fixed price of electricity from the relevant supplier always for the following calendar year.

ČD Cargo, a.s. used the zero cost dollar strategy for the purchase of oil in the monthly volume of 1,262 mt which is concluded with renowned banks. This strategy is entered into for the period of 36 calendar months until December 2011.

The table shows open commodity contracts for purchases of oil as of :

(CZK '000)

Purchase of oil	Hedged zone	Unit	Volume of contracts in mt	Fair value
31 Dec 2009	550 – 700	CZK/mt	30 288	34 430
31 Dec 2008	550 – 700	CZK/mt	45 432	-37 446
1 Jan 2008	0	n/a	0	0

The total impact of commodity derivatives hedging anticipated future transactions recognised in the cash flows hedge reserve as of 31 December 2009 would be positive, amounting to CZK 71,875 thousand (negative in the amount of CZK 13,764 thousand in 2008). The total gain from derivatives recognised due to the ineffectiveness of the hedge in the profit for the year ended 31 December 2009 was CZK 29,633 thousand (a loss of CZK 23,682 thousand in 2008).

35.7.1 Analysis of Sensitivity to Changes in Oil Prices

The change in oil prices has an impact on the measurement of the concluded commodity derivatives. If the oil price had been 10% higher, the Group's other comprehensive income for the years ended 31 December 2009 and 2008 would have increased by CZK 28,356 thousand and CZK 37,958 thousand, respectively, due to the change in the measurement of the derivatives.

The following table shows the Group's sensitivity to an increase in the oil price by 10%. The positive amount indicates an increase in the profit and other comprehensive income. The negative amount indicates a decrease in the profit and other comprehensive income.

(CZK '000)

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Profit (loss) for the period	3 238	28 362	0
Other comprehensive income	25 118	8 901	0

In the unhedged part of the oil consumption, the change in the price has an impact on the purchase price. The sensitivity analysis has been determined based on the anticipated annual unhedged oil consumption. If the oil price had been 10% higher, the Group's net profit for the year ended 31 December 2009 would have decreased by CZK 133 million due to the higher purchase price.

35.8 Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The concentration of the Group's credit risk is low as a significant portion of the Group's revenues (passenger transportation fare) is collected in cash. In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The maximum unhedged exposure to one counterparty is determined at CZK 50 million. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required).

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

35.9 Liquidity Risk Management

The ultimate responsibility for liquidity risk management rests with the Board of Directors which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Parent Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group's short-term liabilities significantly exceed its short-term assets as of 31 December 2009. The predominant reason relates to the urgent necessity for capital expenditure and the use of easily available short-term funds for this purpose. The Group believes that it is able to manage this situation in the short-term through managing relationships with its suppliers and using all available short-term funds. In the mid-term financial plan, the Group anticipates increasing its long-term funds.

35.9.1 Liquidity and Interest Rate Risk Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

(CZK '000)

31 Dec 2009	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2 876 800	3 908 674	1 502 852	1 278 523	22 030	9 588 879
Derivatives	32 732	65 318	288 828	376 099	0	762 977
Finance lease liabilities	72 356	142 764	635 556	3 102 410	1 751 924	5 705 010
Variable interest rate instruments	35 406	90 673	357 260	2 970 431	2 826 139	6 279 909
Fixed interest rate instruments	50 000	350 000	713 500	2 165 968	0	3 279 468
Total	**3 067 294**	**4 557 429**	**3 497 996**	**9 893 431**	**4 600 093**	**25 616 243**

(CZK '000)

31 Dec 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 353 502	3 446 206	1 270 951	1 156 406	29 016	9 256 081
Derivatives	40 716	79 638	342 903	864 527	0	1 327 784
Finance lease liabilities	56 806	112 846	490 521	2 548 501	1 020 360	4 229 034
Variable interest rate instruments	1 638 568	90 661	450 793	1 808 324	4 411 095	8 399 441
Fixed interest rate instruments	0	0	0	0	0	0
Total	**5 089 592**	**3 729 351**	**2 555 168**	**6 377 758**	**5 460 471**	**23 212 340**

(CZK '000)

1 Jan 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 610 138	2 652 534	885 301	1 169 013	33 166	8 350 152
Derivatives	0	0	0	0	0	0
Finance lease liabilities	33 532	66 862	306 072	1 448 111	831 212	2 685 789
Variable interest rate instruments	879 189	88 410	538 216	1 544 571	5 117 110	8 167 496
Fixed interest rate instruments	0	0	0	0	0	0
Total	**4 522 859**	**2 807 806**	**1 729 589**	**4 161 695**	**5 981 488**	**19 203 437**

The following table details the Group's expected maturity for its financial assets. The table has been drawn up based on the undiscounted remaining contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

(CZK '000)

31 Dec 2009	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 077 378	1 214 441	426 943	33 704	307 774	5 060 240
Finance lease liabilities	3 503	0	10 418	14 561	470 331	498 813
Fixed interest rate instruments	461 623	801 591	0	0	0	1 263 214
Total	**3 542 504**	**2 016 032**	**437 361**	**48 265**	**778 105**	**6 822 267**

(CZK '000)

31 Dec 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 437 042	1 467 817	742 087	18 888	584 923	6 250 757
Finance lease liabilities	720	0	10 148	18 011	480 803	509 682
Fixed interest rate instruments	4 117 408	0	0	0	0	4 117 408
Total	**7 555 170**	**1 467 817**	**752 235**	**36 899**	**1 065 726**	**10 877 847**

(CZK '000)

1 Jan 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 427 505	2 447 766	288 593	1 771	567 165	6 732 800
Finance lease liabilities	30	0	90	484	4 212	4 816
Fixed interest rate instruments	70 800	0	0	0	0	70 800
Total	**3 498 335**	**2 447 766**	**288 683**	**2 255**	**571 377**	**6 808 416**

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

35.9.2 Financing Facilities

The Group has access to the below loan facilities:

	31 Dec 2009	31 Dec 2008	1 Jan 2008
Overdraft loan facilities:			
– amount used (CZK thousand)	3 180 000	3 160 000	2 750 000
– amount unused (CZK thousand)	584 676	461 681	174 016
Secured bank loan facilities with various maturity dates which may be extended by mutual agreement			
– amount unused (CZK thousand)	5 735 118	6 128 129	6 398 226

35.10 Fair Value of Financial Instruments

35.10.1 Fair Values of Financial Instruments Carried at Amortised Cost

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

35.10.2 Valuation Techniques Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward and commodity contracts are measured using quoted forward exchange rates, or listed prices of commodities and yield curves derived from quoted interest rates matching maturities of the contracts.

35.10.3 Fair Value Measurements Recognised in the Statement of Financial Position

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Group as of 31 December 2009, 31 December 2008 and 1 January 2008 are included in Level 3. Financial assets available for sale include equity investments the fair value of which cannot be reliably determined and hence are measured at cost.

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

(CZK '000)

	Available-for-sale financial assets	Derivatives	Total
Balance at 1 Jan 2008	375 541	0	375 541
Total gains and losses	5 621	-1 327 784	-1 322 163
- *in profit or loss*	*5 621*	*-76 428*	*-70 807*
- *in other comprehensive income*	*0*	*- 1251 356*	*-1 251 356*
Balance at 31 Dec 2008	**381 162**	**-1 327 784**	**-946 622**
Total gains and losses	-4 936	564 808	559 872
- *in profit or loss*	*-4 936*	*45 824*	*40 888*
- *in other comprehensive income*	*0*	*518 984*	*518 984*
Balance at 31 Dec 2009	**376 226**	**-762 976**	**-386 750**

Set out below is the impact of derivatives on other comprehensive income:

(CZK '000)

	2009	2008
Settlement	436 258	0
Cost deferral	-60 829	0
Change in the fair value	101 550	-1 327 784
Reclassification of the ineffective component	15 005	76 428
- *of which commodity*	*-29 633*	*23 682*
- *of which currency*	*44 638*	*52 746*
Total other comprehensive income	**518 894**	**-1 251 356**

36 POST BALANCE SHEET EVENTS

In January 2010, the decrease in the share capital of ČD Cargo a.s. of CZK 306,000,000 was recorded in the Register of Companies. This legal act was the result of the relevant procedures undertaken by ČD Cargo in 2009. On 15 March 2010, the receivable arising from the share capital decrease was offset against a payable in the identical amount.

In January 2010, the Parent Company concluded two three-year hedging transactions involving traction diesel deals with Citibank and ING. For 2010, 30% of the annual consumption of traction diesel was hedged. The Parent Company will treat these transactions as hedging derivatives.

Since 1 January 2010, the Parent Company has changed its business strategy in purchasing traction electricity. The supplier of the electricity is ČEZ, a.s. and SŽDC, s.o. continues to be the distributor.

37 FIRST-TIME ADOPTION OF IFRSS

The Group adopted IFRS in accordance with IFRS 1 – First-time Adoption of International Financial Reporting Standards. The first day of the IFRS adoption (the transition date) is 1 January 2008. In compliance with IFRS, the Group:

- Provided comparative information in the financial statements;
- Used identical accounting policies in all presented periods;
- Used retrospectively all IFRSs effective as of 31 December 2009; and
- Applied certain optional and mandatory exceptions determined for the first-time adoption of IFRS.

The consolidated financial statements of the Group before the transition date were prepared in accordance with Czech Accounting Standards.

37.1 Use of the Exception Determined in IFRS 1

In accordance with IFRS 1, the Group decided to apply the following optional exceptions from other IFRSs:

- The Group did not apply IFRS 3 Business Combinations retrospectively to business combinations which occurred before the transition to IFRS; and

- As of the transition date, the Group measured certain items of non-current assets at fair value and used this value as the deemed cost as of that date (see below).

In addition, IFRS 1 prohibits the retrospective use of certain aspects of other IFRSs. Of these mandatory exceptions, the guidance on estimates has relevance for the Group. The Group made estimates under IFRS as of the transition date in line with the estimates made as of the same date according to the previously used set of accounting policies, after adjustments reflecting changes in accounting policies.

37.2 Significant Changes in Accounting Policies

As part of the transition to IFRS, the Group changed its accounting policies used in the preparation of the financial statements according to Czech Accounting Standards in the following areas:

- The Group started to use the component approach (capitalisation of major repairs) in reporting railway vehicles which is not an obligatory treatment under Czech Accounting Standards and was not used by the Group. This change resulted in an increase in the value of assets under 'Property, plant and equipment', an increase in depreciation and a decrease in the cost of repairs.

- The Group used the fair value of selected investment property as its deemed cost as of the transition date. This change resulted in an increase in the value of investment property and depreciation.

- In accordance with Czech Accounting Standards, part of employee benefits is paid from the social fund which is created from profit allocations within equity. Under IFRS, allocations to the social fund are recognised in expenses for the relevant period and the balance of the social fund is presented as a provision. In addition, the provision for employee benefits is recognised in a more significant amount as compared to the balance carried under Czech Accounting Standards.

- Changes in the fund from cash flow hedging are recognised in equity in accordance with Czech Accounting Standards. IFRS additionally reports these movements in a separate statement of comprehensive income.

- Accounting for finance leases under Czech Accounting Standards is different – only instalments are recognised in expenses. The transition to IFRS resulted in an increase in the value of 'Property, plant and equipment' and 'Loans and borrowings'. Expenses are reported in a different amount and structure.

37.3 Reconciliation of Equity

(CZK '000)

	31 Dec 2009	1 Jan 2008
Equity reported under Czech Accounting Standards	**34 892 699**	**34 731 355**
Adjustment resulting from different accounting treatments with respect to:		
– Property, plant and equipment	6 128 349	9 879 113
– Investment property	896 794	1 018 552
– Intangible assets	175 074	0
– Equity investments	0	0
– Deferred tax	0	7 946 358
– Sale of SŽDC	-506 049	-537 345
– Social fund	-548 780	-756 393
– Provisions for employee benefits	269 792	-1 363 301
– Other	128 775	43 788
Equity under IFRS	**41 436 654**	**50 962 127**

37.4 Reconciliation of Profit (Loss) for the Period

(CZK '000)

	2009
Profit (loss) for the period reported under Czech Accounting Standards	-1 003 078
Adjustments resulting from different accounting treatments with respect to:	
– Social fund	-1 345 083
– Property, plant and equipment	-193 723
– Provisions for employee benefits	19 421
– Deferred tax	204 739
– Other	-248 897
Profit (loss) for the period reported under IFRS	**-2 566 621**

37.5 Significant Adjustments to the Cash Flow Statement

Upon the transition to IFRS, there were no changes in total cash flows. However, the different treatment of certain transactions leads to a different classification of cash flows among the operating, investment and financing parts:

- Finance lease instalments under Czech Accounting Standards are reported as a negative operating cash flow. Under IFRS, the conclusion of a contract results in a positive financing cash flow and a negative investment cash flow. Lease instalments are reported partially as a negative operating cash flow (payment of interest) and partially as a negative financing cash flows (principal payment).

- Allocations to and drawings of the social fund are reported as a financing cash flow under Czech Accounting Standards; under IFRS, they represent an operating cash flow: allocations are presented as part of operating expenses and drawings as a change in working capital (decrease in payables).

- Capitalisation of major repairs is reported as an investment cash flow while, under Czech Accounting Standards, it is part of the pre-tax profit.

37.6 Use of the Fair Value as the Deemed Cost

As of the transition date of 1 January 2008, the Group measured the land at cost.

In addition, the Group performed the test of the value of the buildings on the basis of the lease yield method as of the transition date of 1 January 2008. The basis for the calculation included lease values from currently concluded contracts combined with price maps and other available market information. The number of the tested buildings was 7,561. The analysis of the obtained data determined the combination of two criteria for selecting items appropriate for revaluation.

- The difference between the carrying amount and the value from revaluation exceeds CZK 500 thousand; and
- More than 50% of the building is leased.

Pursuant to the criteria referred to above, 557 buildings were revalued, for which the Group used the fair value as the deemed cost.

In addition, the fair value was used as the deemed cost for assets sold to SŽDC in 2008. The fair value was determined as equal to the selling price (refer also to the Note 'Assets held for sale').

The following table shows the impact of the use of the fair value as the deemed cost for the value of property, plant and equipment as of the transition date:

	(CZK '000) 1 Jan 2008
Carrying amount of items, remeasured at fair value, under the previously used set of accounting policies	24 951 107
Total fair value remeasurement	14 375 917
Fair value of remeasured items as the deemed cost under IFRS	39 327 024
Carrying amount of items, not remeasured at fair value (the same as the previous set of accounting policies)	14 679 561
Value of property, plant and equipment under IFRS	**54 006 585**

The following table shows the impact of the use of the fair value as the deemed cost for investment property as of the transition date:

	(CZK '000) 1 Jan 2008
Carrying amount of items, remeasured at fair value, under the previously used set of accounting policies	715 922
Total fair value remeasurement	1 011 633
Fair value of remeasured items as the deemed cost under IFRS	1 727 555
Carrying amount of items, not remeasured at fair value (the same as the previous set of accounting policies)	540 380
Value of property, plant and equipment under IFRS	**2 267 935**

38 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 31 January 2011.

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