Annual report 2011 of the České dráhy Group

WE CARE ABOUT OUR PASSENGERS

Last year was characterised by the modernisation of our trains and the enhancement of our customer care. We have managed to maintain our position in an environment marked by growing competition – the result of having satisfied passengers and a well-functioning company. We intend to maintain this endeavour and we firmly believe that our passengers will see how our striving and determination is reflected in the quality of our approach to them, their needs and their wishes.


92

CARE

The wishes and needs of our customers are our utmost priority. As such, we provide our customers with 24-hour service through our customer centre. As part of this initiative we also pay attention to the needs of our youngest passengers. On board of our trains we have extended the ČD Lounge services for first class passengers, passengers with children (children’s compartments) and pregnant women. In case of any difficulties, our customers can contact us and tell us their feelings and ideas on how our services can additionally be improved.

INTRODUCTION, VISION AND GOALS

ABOUT US

We are a transportation enterprise which operates passenger and freight railway transport, including:

- Provision of regional, long-distance and international passenger railway transportation services;
- Provision of comprehensive freight transportation services across Europe;
- Provision of telematic services to railway transportation companies and railway infrastructure administrators;
- Provision of comprehensive repair services for rolling stock and railway infrastructure;
- Provision of testing services, railway transportation research and development; and
- Provision of railway catering services.

OUR GOAL

We aim to be the railway transportation company of choice for travellers, orderers and freight transport customers.

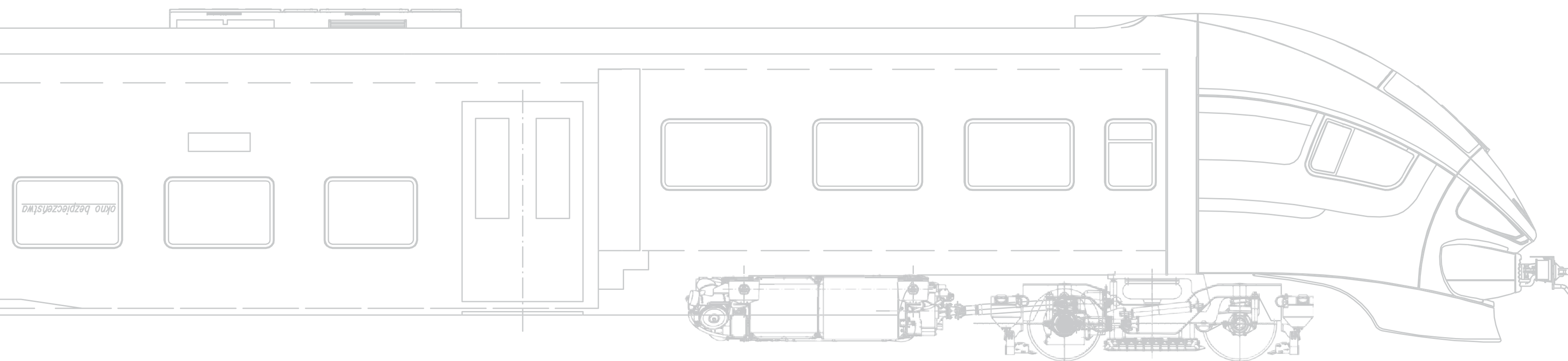
HOW TO ATTAIN OUR GOAL

- We are customer-focused and try to make our services simple and easy to use.
- We invest in the modernisation of our rolling stock and include new rolling stock in our operations.
- We invest in the modernisation of station buildings and make rail travel more pleasant.
- We implement modern technologies in ticket sales and traveller check-in.
- We decrease operating costs per operating unit on a long-term basis.
- In 2011 the Vision 2012 programme continued, which is designed to reverse the historic lack of coordinated steps in the area of passenger railway transport funding and to obtain at least an additional amount of CZK 4 billion. The Vision 2012 programme predominantly covers the following areas:
  - Customer focus;
  - Relationships with clients;
  - Development of commercial activities;
  - Operational efficiency improvement; and
  - Modern organisation and human resources.

MAJOR INDICATORS OF THE ČESKÉ DRÁHY GROUP

KEY INDICATORS IFRS financial indicators (in CZK million)*	2011	2010	Difference	%
ČD Group				
EBITDA	6,672	4,650	2,022	143
EBIT	998	-995	1,953	n/a
Profit/loss for the reporting period	491	-981	1,472	n/a
Total assets	82,612	75,491	7,121	109
CAPEX	8,603	10,367	-1,764	83
Amortisation and depreciation	5,673	5,605	68	101
Leverage (%) – external funding/assets	48.8	44.7	4.1	109
Current liquidity (%) – short-term assets/short-term liabilities	48.4	34.9	13.5	139
ROCE (%) – EBIT/(total assets – short-term liabilities)	1.6	-1.7	3.3	n/a
Average FTE	33,566	38,046	-4,480	88
Passenger transport (ČD, a.s.)				
Number of travellers (mil.)	166	163	3	102
Transportation performance (mil. person-kilometres)	6,635	6,553	82	101
Traffic performance (mil. train-kilometres)	121.3	122.1	-0.8	99
Average transportation distance (km)	40	40	0	100
Utilisation of the offered capacity (%)	24	23	1	104
Freight transport (ČD Cargo, a.s.)				
Transportation volume (mil. tonnes)	78.74	76.72	2.02	103
Transportation performance (mil. tariff tonne-kilometres)	13,872	13,592	280	102
Traffic performance (mil. train-kilometres)	26.2	25.9	0.3	101
Average transportation distance (km)	176	177	-1	99
DPOV, a.s.				
SOP – Average actual repair period (days)	77.21	79.02	-1.81	98
ODKP – Average additional repair period (days)	78.07	80.49	-2.42	97
Weighted average calculated from (SOP) – (ODKP)	-0.86	-1.75	0.89	49

* The financial information for the year ended 31 December 2010 has been revised for comparison.



PESA

Train producer: PESA Bydgoszcz SA (Poland), number of units ordered: 31

Thanks to the low-floor solution for the entrance section, the train unit enables comfortable travelling on regional transport, principally to wheelchair-bound people, seniors, mothers with children and passengers with large and heavy luggage.

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Chairman of the Board of Directors and CEO
Ing. Petr Žaluda

OPENING STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Ladies and Gentlemen,

We would like to present you the annual report of the České dráhy Group for the year ended 31 December 2011. With regard to the overall economic situation, the economic results of the Group companies have been very good. Both the business of the parent company, České dráhy, a.s., and its subsidiaries was successful. In principal, I would like to point out the growth of revenues from passenger and cargo transport.

For 2011 the České dráhy joint stock company generated a profit. As in the previous year, we have seen that thanks to contracts concluded with customers for multiple decades and as a result of internal savings, the national transportation company's business can be optimised. In addition, this all could have been achieved also while significant investments were being made in trains modernisation and it was necessary to cope with increasing costs of hundreds of millions. In 2011 the year-on-year number of passengers using our services grew by three million. Especially this positive trend had an impact on the revenues from passenger transport that grew by CZK 216 million on a year-on-year basis.

With regard to the growth in revenues, also the largest subsidiary, ČD Cargo, a.s., achieved success. The revenues from the freight transport increased by 1.1 billion crowns year to year.

Ladies and Gentlemen, the České dráhy Group reported a consolidated profit of CZK 491 million for 2011 under International Financial Repo rting Standards. I firmly believe that individual companies included in the České dráhy Group have the potential to continuously enhance their results, which certainly is good news both for the management and the state.

Petr Žaluda
Chairman of the Board of Directors and CEO





1	2	3
4	5	

1 Ing. Petr Žaluda
2 Ing. Vladimír Bail, Ph.D.
3 Ing. Michal Nebeský
4 Ing. Jiří Kolář, Ph.D.
5 Bc. Ctirad Nečas

STATUTORY BODIES AND MANAGEMENT OF THE COMPANY

BOARD OF DIRECTORS

Petr Žaluda

▸ CHAIRMAN OF THE BOARD OF DIRECTORS (SINCE 1 FEBRUARY 2008) AND CEO (SINCE 1 FEBRUARY 2008), AGE: 45

Petr Žaluda graduated from the Technical University in Brno and completed study programmes at Utrecht University and the Sheffield Business School.

He worked as Country Manager for Stork Demtec. Between 1993 and 1996, Petr worked as Branch Office Manager in Ernst & Young. In 1998, he became the CEO and Chairman of the Board of Directors of Winterthur, pension fund. Between 2002 and 2006, he managed the Winterthur Group in the Czech Republic and Slovakia. In 2007, Petr became Country CEO of AXA for the Czech Republic and Slovakia.

Vladimír Bail

▸ FIRST VICE-CHAIRMAN OF THE BOARD OF DIRECTORS (SINCE 9 NOVEMBER 2011), AGE: 51

Vladimír Bail graduated from the Faculty of Metallurgy and Materials Engineering at the Technical University of Ostrava. Between 2001 and 2003 he was the Chairman of the Board of Directors and the CEO of VÍTKOVICE, a.s. Later, he was the Chairman of the Board of Directors and the CEO of VÍTKOVICE STEEL, a.s. In 2009 he was appointed the Executive Director of TATRA, a.s. where he worked until 2010. To date he is also the President of ESAP Consult.

Michal Nebeský

▸ MEMBER OF THE BOARD OF DIRECTORS (SINCE 12 SEPTEMBER 2008) AND DEPUTY CEO FOR FINANCE (SINCE 1 SEPTEMBER 2008), AGE: 44

Michal Nebeský graduated from the University of Economics in Prague, Faculty of International Trade and Finance. From 1991 he worked at Citibank where he was appointed Risk Manager for the Czech Republic in 2002 and Risk Manager for Central Europe in 2003.

Jiří Kolář

▸ MEMBER OF THE BOARD OF DIRECTORS (SINCE 9 MAY 2005), AGE: 48

Jiří 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 the then Česko-slovenské 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 OPŘ Ústí nad Labem. From 1 February 2008 to 31 August 2011, he was Operations Deputy CEO.

Ctirad Nečas

▸ MEMBER OF THE BOARD OF DIRECTORS (SINCE 9 NOVEMBER 2011), AGE: 39

Ctirad Nečas graduated from the Faculty of Arts of Masaryk University in Brno. Until 2002 he worked for FIRM Blansko in the position of the shareholder's deputy. From 2002 he was the Finance Director of Lavimont, spol. s r.o. At present he is the CEO of Královopolská Ria, a.s.

CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS

On its meeting of 9 November 2011, the Supervisory Board recalled Antonín Blažek and Milan Matzenauer from their positions.

SUPERVISORY BOARD

Lukáš Hampl
Chairman of the Supervisory Board (since 8 October 2010),
(member since 16 September 2010) age: 38
Deputy Minister of Transport of the Czech Republic

Ivo Toman
Member of the Supervisory Board (since 19 August 2011), age: 45
Deputy Minister of Transport of the Czech Republic

Miroslav Nádvorník
Member of the Supervisory Board (since 16 September 2010), age: 45
Chairman of the Board of Directors and CEO of MD Logistika, a.s.

Michael Hrbata
Member of the Supervisory Board (since 16 September 2010), age: 40
Deputy Minister of Defence of the Czech Republic

Daniel Bartek
Member of the Supervisory Board (since 8 October 2011), age: 50
Deputy Minister of Transport of the Czech Republic

Martin Riegl
Member of the Supervisory Board (since 19 August 2011), age: 31
Ministry of Transport of the Czech Republic, Chief of Administration

Vladislav Vokoun
Member of the Supervisory Board (since 1 January 2009), age: 52
Vice-Chairman of the Confederation of Railroad Unions (OSŽ)

Antonín Leitgeb
Member of the Supervisory Board (since 1 January 2009), age: 53
Secretary of the Company Committee of the Confederation
of Railroad Unions (OSŽ)

Jaroslav Pejša
Member of the Supervisory Board (since 5 May 2011), age: 56
Chairman of the the Company Committee of the Confederation
of Railroad Unions (OSŽ), Member of OSŽ's Company Committee
under ČD, a.s.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

Radek Šmerda was recalled from his position as a Supervisory Board Member as of 28 April 2011. The term of office as a Supervisory Board Member ended for Jan Bitter on 4 May 2011. As of 19 August 2011, the Steering Committee recalled Zdeněk Prosek from his position as a Supervisory Board Member. As of 19 August 2011, Karel Březina, Tomáš Chalánek and Pavel Škvára were recalled by the Steering Committee. As of 7 October 2011, Jaroslav Palas was recalled from his position as a Supervisory Board Member.

STEERING COMMITTEE

Ivo Vykydal
Chairman of the Steering Committee; Deputy Minister of Transport of the Czech Republic
Appointed by the Prime Minister following Resolution 318 of the Czech Government of 27 April 2011

Jakub Hodinář
Vice-Chairman of the Steering Committee; external employee of the Ministry of Transport of the Czech Republic
Appointed Vice-Chairman following Resolution 582 of the Czech Government of 11 August 2010

Lukáš Hampl
Member of the Steering Committee; First deputy of the Minister of Transport of the Czech Republic
Appointed following Resolution 582 of the Czech Government of 11 August 2010

Michael Hrbata
Member of the Steering Committee; Deputy Minister of Defence of the Czech Republic
Appointed following Resolution 582 of the Czech Government of 11 August 2010

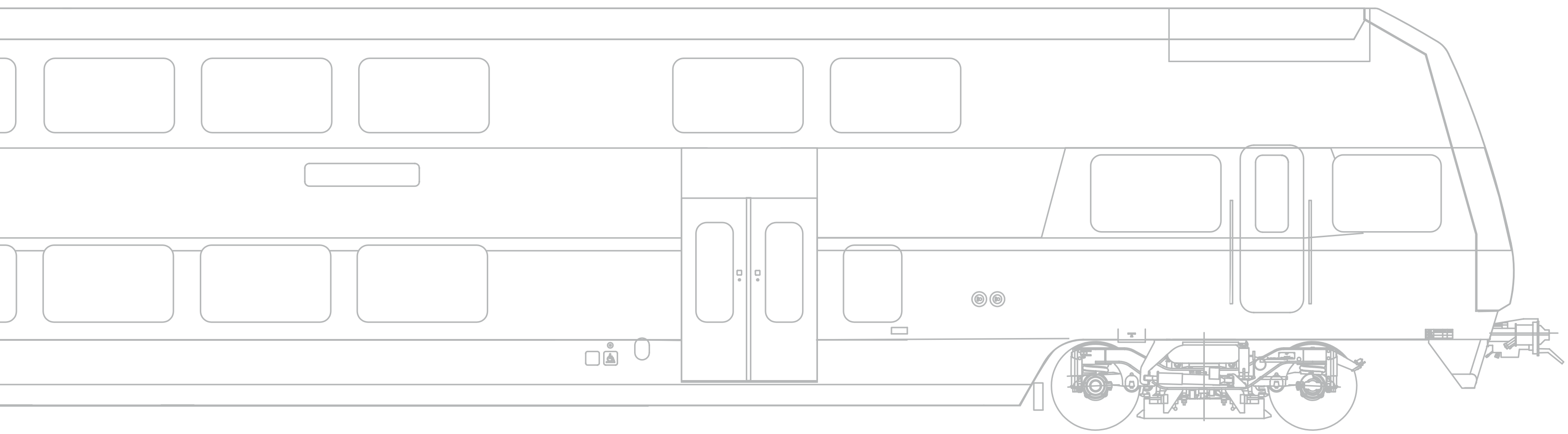
Michal Janeba
Member of the Steering Committee; Deputy Minister for Regional Development of the Czech Republic
Appointed following Resolution 582 of the Czech Government of 11 August 2010

Petr Polák
Member of the Steering Committee; Chief of the Division of Interdepartmental Issues and State-Owned Enterprises, the Ministry of Industry and Trade of the Czech Republic
Appointed following Resolution 1168 of the Czech Government of 11 October 2006

Miloslav Müller
Member of the Steering Committee; Chief of Staff of the Minister of Finance of the Czech Republic
Appointed following Resolution 207 of the Czech Government of 7 March 2007

CHANGES IN THE COMPOSITION OF THE STEERING COMMITTEE

On 21 April 2011, Radek Šmerda resigned from his position as the Chairman of the Steering Committee.



City Elefant

Produced by Škoda Vagónka Ostrava, 75 units currently in operation and an additional 8 units on order

The double-deck set-up of these suburban transport units in large cities such as Prague and Ostrava provides a large capacity of comfortable seats and sufficient space for wheelchair-bound people, perambulators and bicycles.

REPORT OF THE SUPERVISORY BOARD

In 2011 the Supervisory Board held seven ordinary and one extraordinary meeting in the registered office of České dráhy, a.s. The members of the Company's Board of Directors regularly participated in the meetings.

In 2011, the Company's Supervisory Board performed its activities and fulfilled the aggregate tasks in accordance with the legal regulations and the Company's Articles of Association. In accordance with Article 47a of the Company's Articles of Association, the Supervisory Board performed its activities through individual committees (lately the Remuneration Committee has been established). The underlying documentation for the Supervisory Board's meetings was prepared by individual committees.

As part of its supervisory activities, the Supervisory Board continuously monitored the activities of the Board of Directors. The meeting discussions of the Supervisory Board included various applications filed by the Company's Board of Directors to obtain approval prior to specific legal acts. The Supervisory Board states that in 2011 the Company's Board of Directors provided the Supervisory Board with the aggregate information required or necessary for performing the Supervisory Board's oversight activities and cooperated with the Supervisory Board accordingly.

On a continuous basis the Supervisory Board monitored the performance of activities of the Board of Directors and the proceeding and development of the Company's business activities. Principally the Supervisory Board focused on the current status of material contracts, the realisation of projects according to the investment plan and meeting of goals set out by the annual business plan. In performing its activities, the Supervisory Board made multiple comments, suggestions and requirements relating to the underlying documentation that was the subject of the discussions.

As part of its oversight activities, the Supervisory Board did not identify České dráhy's or any individual Board of Directors member's violation or non-fulfilment of duties set out by legal regulations, the Articles of Association, internal company regulations, instructions of the General Meeting, or based on the Supervisory Board's own suggestions made to the Company's Board of Directors.

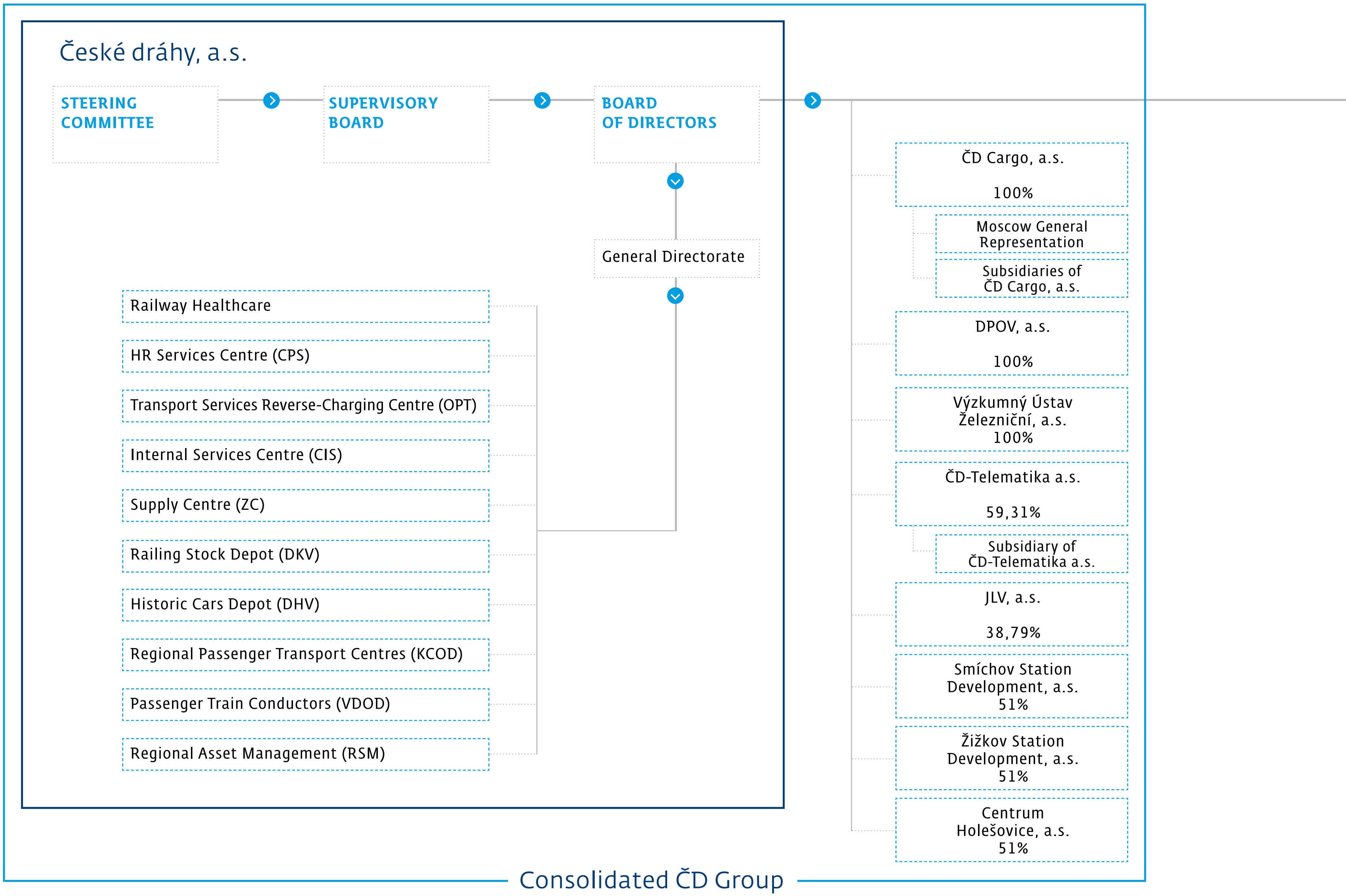
In conclusion, the Supervisory Board states that it was provided with all conditions necessary for the due performance of its activities and that the performance of the activities was fully in compliance with the provisions of the Articles of Association of České dráhy, a.s. and the legal regulations.

In Prague on 26 April 2012

Chairman of the Supervisory Board of České dráhy, a.s.

ORGANISATIONAL STRUCTURE OF THE ČESKÉ DRÁHY GROUP

As of 31 December 2011



Dopravní vzdělávací institut, a.s.
100%

ČD Reality a.s.
100%

RailReal a.s.
66%

ČD travel, s.r.o.
51.72%

RAILREKLAM, s.r.o.
51%

Masaryk Station Development, a.s.
34%

CR-City a.s.
34%

CR office a.s.
34%

RS hotel a.s.
34%

RS residence s.r.o.
34%

WHITEWATER a.s.
34%

ČD Restaurant, a.s.
40%

PRaK, a.s.*
14.53%

INTERNATIONALE SPEDITION Děčín, a.s.**
6.25%

HIT Rail BV
4%

BCC, s.c.r.l.
3.4%

EUROFIMA
1%

Intercontainer-Interfrigo SA***
0.43%

* The company has been in liquidation since 28 June 2011.
** In 2008 the company was dissolved, pursuant to Section 68 (3) (F) of the Commercial Code due to the cancellation of the bankruptcy, after fulfilling the allocation decree; the owner has not filed for the proposal of erasing the company from the Register of Companies.
*** The extraordinary General Meeting of the company of 26 November 2010 passed a resolution on the company's dissolution and liquidation.

PROFESSIONALISM

Our staff are professionally trained and have extensive experience in the provision of top-quality services. As for our company, the professionalism, experience and due care of our staff is critical: this is how we strive to ensure that all customers of České dráhy are as satisfied as possible.

2011 EVENT CALENDAR

JANUARY

- ČD launched pilot testing of the 380-type three-carriage electric locomotives and the renovated 750.7-type locomotives, which were used as part of selected long-distance trains.

FEBRUARY

- Through Regulation 100 of 9 February 2011, the Government of the Czech Republic provided its consent to the transfer of additional activities that are subject to railway operation including the relevant material, technological and staff capacities from ČD to the state organisation SŽDC, as of 1 July 2011. In addition, the Government of the Czech Republic assigned the Ministers of Transport, Finance, Defence, Industry and Trade and the Minister for Regional Development with securing the above-outlined transfer through the Steering Committee of ČD via the relevant representatives of individual ministries. The Minister of Transport was assigned with securing the funding to cover the non-recurring expenses for the transfer without any additional requirements on the state budget.

- Through Regulation 63/2011, the Government of the Czech Republic determined the minimal quality values and quality and safety standard indicators related to the provision of public passenger transportation services, and the method of their presentation.

MARCH

- On 17 March, ČD signed a contract with PESA for the supply of 31 two-part diesel units in the amount of approximately CZK 2 billion, of which 17 units are co-funded through EU Regional Operational Programmes.

APRIL

- On 14 April the newly-renovated Prague main station terminal was officially opened for daily use by the Presidents of the Czech Republic and Italy. The renovation cost CZK 900 billion.

- On 21 April the Regional Court in Brno dismissed the administration action of ČD against the ruling passed by the Chairman of the Office for the Protection of Competition (ÚHOS) filed in 2006 by SPEDIT-TRANS, a.s, the subject of which was the administration action taken against ČD due to the suspicion of its abuse of its dominant position on the cargo railway transport market. After performing the inspection, the Office for the Protection of Competition (ÚHOS) came to the conclusion that ČD had abused its dominant position and assessed ČD with a fine in the amount of CZK 270 million, the final amount of which was CZK 254 million. Within the legal deadline, ČD filed a cassational complaint against the ruling passed by the Regional Court in Brno on the dismissal of the action with the Supreme Administrative Court and requested that ÚHOS postpone the maturation of the fine until the ruling passed on the cassational complaint comes into effect. ÚHOS granted this request.

- Based on Governmental Resolution 318 of 27 April 2011, Ivo Vykydal was appointed Chairman of the Steering Committee of České dráhy, a.s.

MAY

- Rating agency Moody's has assigned a provisional Baa1 issuer rating to České dráhy, a.s.

- Both at a central and an executive level, supervisory external audits for system quality (ISO 9001) and of the environmental management system of ČD Cargo, (ISO 14001) were performed. The auditors' team certified the compliance of both systems with the ISO requirements and, based on the audit performed, it made a recommendation that the certificates also be awarded to ČD Cargo for the next period.

JUNE

- ČD issued international bonds in the amount of EUR 300 million maturing in 2016.

- Based on Ruling 486 of 22 June 2011, the Government of the Czech Republic changed Ruling 100 of 9 February 2011 on the transfer of selected activities that are subject to railway operation from ČD to the state organisation, SŽDC. The Government approved the transfer of the selected activities by no later than 1 September 2011.

- On 27 June, a new ČD Cargo container train departed from Přerov to Moscow under the Flavia project funded through the EU Operational Programme entitled "National Co-operation".

JULY

- Moody's has assigned definite Baa1 issuer rating to České dráhy, a.s. following the successful placement of CD's inaugural bond issuance of EUR 300 million.

- Through Resolution 565 of 20 July 2011, the Government of the Czech Republic approved the amendment to the Czech Republic's Transport Policy for 2005–2013.

SEPTEMBER

- On 1 September 2011, approximately 9,326 employees who ensure railway infrastructure were transferred from ČD, a.s. to SŽDC, s.o.

OCTOBER

- ČD launched the operations of new Stadler Regio Shuttle 1 diesel cars in the Vysočina and Liberec regions.

NOVEMBER

- ŠKODA Transportation presented the Regio Panter electric unit which is intended for České dráhy.

- First passengers travelled by the Regio-Shuttle RS1 carriages in the Liberec and Vysočina regions.

DECEMBER

- Starting 17 December, ČD introduced a Saturday direct connection between North Moravia and the westernmost part of the Czech Republic with an SC Pendolino train.

CORPORATE GOVERNANCE

SHAREHOLDER STRUCTURE

The Czech Republic is the sole shareholder of ČD. The state exercises the shareholder rights in ČD through the Steering Committee. The Steering Committee is composed of three employees from the Czech Ministry of Transportation and one employee from each of the following ministries: Finance, Defence, Industry and Trade, and Regional Development, who are appointed, in writing, by the government.

CO-OPERATION OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

▸ BOARD OF DIRECTORS

Operative management and corporate business governance, including the proper keeping of accounting records and books, are performed and ensured by the Board of Directors, which is composed of five members. Members of the Board of Directors are elected and recalled by the Supervisory Board. The Board of Directors meets as needed, most frequently weekly but at least once every three months. The Board of Directors principally decides on: (i) all of the Company's affairs unless they are reserved for the General Meeting (ie the Steering Committee), the Supervisory Board or the Audit Committee; (ii) whether to approve the election procedure used to elect the Supervisory Board's members by the Company's employees as negotiated with trade unions; and (iii) how to manage the Company's assets. The Board of Directors follows the general principles and instructions approved by the General Meeting (ie the Steering Committee), provided they are in compliance with legal regulations and ČD's Articles of Association.

▸ SUPERVISORY BOARD

The Supervisory Board has nine members. Two-thirds of the members are elected by the General Meeting and one-third is elected by the Company's employees pursuant to the election procedure approved by the Board of Directors following discussions with the relevant trade unions. The term of office is five years. The Supervisory Board meets as needed, but at least four times a year. The Supervisory Board supervises the execution of the role of the Board of Directors and the Company's business performance. The most significant areas of authority include: (i) reviewing the report on the Company's business activity and the Company's financial performance; (ii) approving the business plan including the business strategy; and (iii) granting approval of asset management, if such a procedure is required by the Company's Articles of Association.

▸ STEERING COMMITTEE

The shareholder exercises its authority through the Steering Committee, which is the supreme body of the Company. The Steering Committee acts in the capacity of the Company's General Meeting. The Steering Committee meets at least twice a year and decides on essential corporate governance issues entrusted to it by law or ČD, a.s.'s Articles of Association.

▸ AUDIT COMMITTEE

The members of the Audit Committee are appointed and recalled by the General Meeting. The Audit Committee has three members. The term of office is five years. The Audit Committee meetings are held as and when needed, however, four times a year, as a minimum.

The most significant activities include the following:

- Monitoring the procedure of preparing the financial statements and the consolidated financial statements; and
- Monitoring internal controls and the management of ČD's risk, independence, objectivity and auditor recommendations.

The activities of the Audit Committee are based on ČD's Articles of Association and the ČD Statutes. Pursuant to the legal regulations and the Articles of Association, the scope of authority of the Audit Committee does not affect the scope of authority of other bodies of the Company.

▸ INTERNAL AUDIT

Internal audit activities are within the scope of authority of ČD's Internal Audit and Review Committee. This department reports to the Board of

Directors of ČD; and the independence and effectiveness of Internal Audit is overseen by the Audit Committee. The purpose, objective, scope and focus of this department's activity including its position within ČD and within the ČD Group is defined by the "Internal Audit Statutes of České dráhy, a.s." The activity of the Internal Audit department of ČD is based on the principles of internationally recognised standards. To ensure activity coordination, the Internal Audit department also communicates and cooperates with external controls bodies, the external auditor and criminal law authorities.

▸ COMPLIANCE

The principal activities of the department are as follows:

- Ensuring compliance of internal regulations with generally binding legal regulations and the compliance among individual internal regulations;
- Identification of potential risks and the impacts arising from anticipated changes in legal regulations;
- Participation in workgroups and the co-ordination of comments on the changes in legal regulations submitted to ČD for presenting its opinion thereon;
- Presentation of comments and discussion of proposed changes in legal and internal regulations as well as corporate culture maintenance.

As part of the compliance policy approved by the ČD Group, the department ensures compliance supervision across the ČD Group. In addition, the director of the Compliance department holds a position as a member of the Risk Management Committee. The scope of authority of the Compliance department is defined by the ČD Compliance Department Statutes and the organisational system of ČD.

▸ TRANSPARENCY AND REPORTING

The ČD Group follows the transparency rules of openness, communication and responsibility. The Company's management has open negotiations, discloses financial facts in full, provides for freedom of information, budget planning and review, and conducts regular internal audits followed by immediate output solution plans and public decision making of the executive management. All documentation, materials, arguments both for and against relevant actions, decisions and decision-making processes, as well as final results, are public information. Transparency removes the barriers that obstruct free access to corporate, political and personal information, as well as the Articles of Association, and the rules and processes that govern the Company. The transparent approach to corporate governance protects the employees, as well as the Company.

RISK MANAGEMENT

ČD's risk management system is based on the defined framework of Corporate Governance rules and forms an integral part thereof. In 2011 the significance of risk management was increased as part of the efforts to improve the quality of governance and management of both ČD and the entire ČD Group.

The efforts to develop an integrated risk management system continued across the ČD Group. The principal purpose of the system was to improve 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 new system is to maximally limit the adverse impact of risks on the financial results of the entire ČD Group, ie 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 held its meetings on a monthly basis. The 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 ČD Group, unified risk categorisation is applied, the goal of which is to provide comparable information for the preparation of the consolidated financial statements and to unify the risk evaluation method. Thanks to the continuous monitoring of significant risks in all major categories, the Company's management is informed on a timely basis of the current state of affairs in the area of risk management.

▸ MARKET RISKS

In respect of the ČD Group's passenger and cargo railway transportation activities, the Group is sensitive to fluctuations of market values that impact the financial results and cash flows. Significant market risks include risks that would not allow the Company to meet its business objectives. The basic goal of the ČD Group in the area of market risk management is to mitigate the impact market risks could have on the Company's financial results and cash flows (taking into account the cost of measures leading to the mitigation of the relevant negative impact).

Basic market risks to which the ČD Group is exposed include currency risk, interest rate risk, and commodity risk. The ČD Group manages market risks using a system of limits and principles pursuant to the Company's approved risk appetite or based on more detailed specifications as approved by the Risk Management Committee and the Board of Directors. The risk appetite is defined on the basis of the CFaR method (Cash Flow at Risk), with a probability quantile of 95%, or based on stress tests. Once a year, the ČD Group re-assesses the identification of significant market risks and the risk appetite.

Both ČD and ČD Cargo actively utilise natural hedging, and, as and when needed, they ensure limits are complied with using standard hedging transactions on financial markets.

▸ CREDIT RISK

In the course of its activities, the ČD Group is exposed to credit risk related to the threat that a counter-party will default on its obligations, which could have a negative impact on the Company's financial results and cash flows.

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

▸ LIQUIDITY RISK

The principal objective of liquidity management in the ČD Group is to provide sufficient funds to settle due payables. The main source of liquidity risk is the financial situation and solvency of major orderers of the provided service, which include the state and individual regions in respect of passenger transportation, and major clients in freight transportation. In addition, ČD is exposed to liquidity risk arising from the debt service related to the Company's existing and future debt and payment obligations arising from concluded investment contracts.

Assessing the short-term and medium-term development of liquidity and cash flow forecasts is a key to managing the liquidity. Obtaining sufficient lending facilities from funding banks forms an integral part of liquidity risk management. The ČD Group uses available overdraft facilities from its local bankers and allocates their limits among Group members as and when needed. The ČD Group also actively issues short-term securities through a promissory note programme as an additional source of short-term liquidity. In 2011, the committed back stop facilities under the promissory note programme were extended to 24 months, which enhances the stability of the Company's liquidity management and its ability to settle payables. In addition, the ČD Group uses debt capital markets as the principal source for long-term investment funding, along with drawing long-term investment loans and, alternatively, using financial leases.

▸ OPERATIONAL RISK

In operational risk, attention is principally devoted to meeting ČD's strategic objectives focused on achieving high standards of service quality and customer satisfaction with an emphasis on operational efficiency, which enhance competitiveness in rail, road, and air transport not only in the Czech Republic, but also within the unified European rail system.

As the requirements of passenger transportation orderers and customers for travel comfort and railway transportation punctuality increase and given the already-realised entrance of local transportation competitors, the key instrument to mitigating the impact of operational risks involves increasing investments in acquiring and modernising rolling stock to which ČD's management dedicates every reasonable effort. Both in passenger and freight transportation, significant material and financial damage caused to third parties is covered by liability insurance.

CORPORATE SOCIAL RESPONSIBILITY

ČD's corporate social responsibility has a long tradition, which has been maintained despite the implementation of saving measures, specifically in the economic, environmental and social areas.
In respect of passengers, this principally includes enhancing the quality of passenger transportation, which is related to the positive perception of ČD. ČD is one of few transportation companies in the Czech Republic to provide special conditions for the assistance of disabled people, principally wheelchair-bound people. In 2011, ČD put into use another 64 wheelchair-accessible carriages; total usage of wheelchair-accessible carriages or units was 450. This was achieved mainly thanks to putting into use the Regionova and CityElefant units and newly also the new Regio Shuttle RS1 diesel cars. In addition, carriages used in long-distance transport and railway stations are modernised; in addition, activities focusing on barrier removal are being carried out.
All of the above-named adjustments are intended not only for wheelchair-bound people, but also for other people with limited movement abilities, ie seniors, temporarily-disabled passengers, deaf and blind people, pregnant women or passengers with young children.

ČD's corporate philanthropy is focused on three areas. Firstly, education, which includes the traditional "Prevention Train" project focusing on older children and teenagers that is principally focused on railway transport safety. The second project is the "Junior" programme, the goal of which is to integrate and inform on all activities realised in respect of children and young people. Specifically, these activities include the "Můj vláček" (My Train) magazine, the "Bambiriáda" event and various events focusing on children and young people, for example: "S Elfíkem do Zoo" (To the Zoo with the Elf), Children's Day, St. Nicolas train rides, etc. The novelty of this initiative has been the launch of a new website for younger children. Secondly, ČD's initiative focuses on shaping public perception in favour of the Company. In particular, this includes the traditional "Delivery of the Bethlehem Light" project, in which ČD co-participates. The last area under the above-named initiative includes projects focused on handicap compensation, specifically the long-term project entitled "The Happiness and Hope Train" and an internet painting auction, the proceeds of which are donated to selected orphanages. Another traditional project is the "Train Full of Smiles", which transports disabled children and children from orphanages to the international film festival in Zlín, which is closely-related to the "Cinema Train" project for screening films for children in selected train stations. In co-operation with multiple foundations, ČD provides free transport to children on their travels to school, leisure activities and events under free-time activities. The Company's traditional partnership includes co-operation with the National Technical Museum and the Okřídlené Oko foundation, which focuses on the renovation and maintenance of historic railway equipment and structures.

PERSONAL APPROACH

Every passenger appreciates being treated politely and pleasantly while all his/her requirements are met in full. This is the fundamental nature and mindset of our team. The members of our excellent on-board staff and other employees of České dráhy are always ready to advise and help all passengers. For instance, for disabled passengers (ZTP-card holders), our staff provide assistance services at railway stations; in selected first-class trains stewards take care of passengers throughout the train journey.

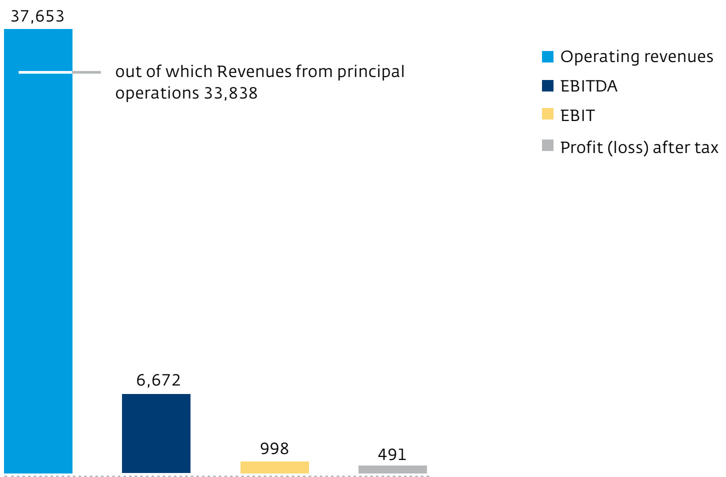
REPORT OF THE BOARD OF DIRECTORS

REPORT ON THE COMPANY'S BUSINESS ACTIVITIES AND ASSETS

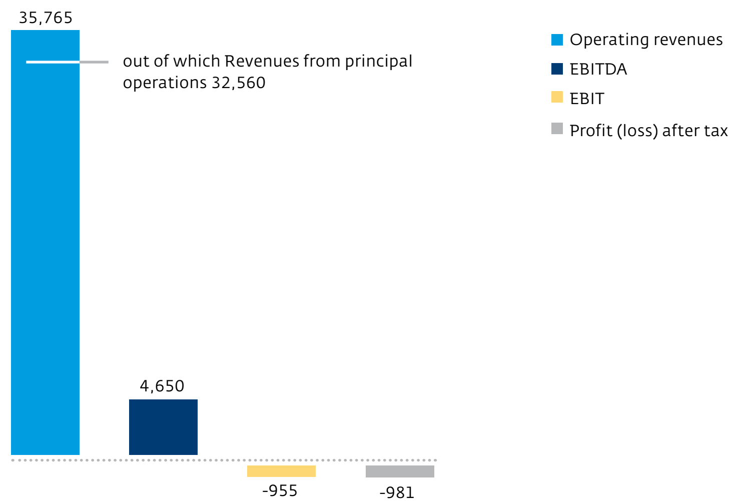
ECONOMIC RESULTS OF THE ČD GROUP

In 2011, the ČD Group generated net profit from continuing operations in the amount of CZK 95 million, which is a significantly-better result than the net loss of more than CZK 1 billion reported in the previous year. The 2011 net profit, including the economic result from discontinued operations, amounted to CZK 491 million.

Operating Results, EBITDA, Profit (Loss) after Taxation 2011



Operating Results, EBITDA, Profit (Loss) after Taxation 2010



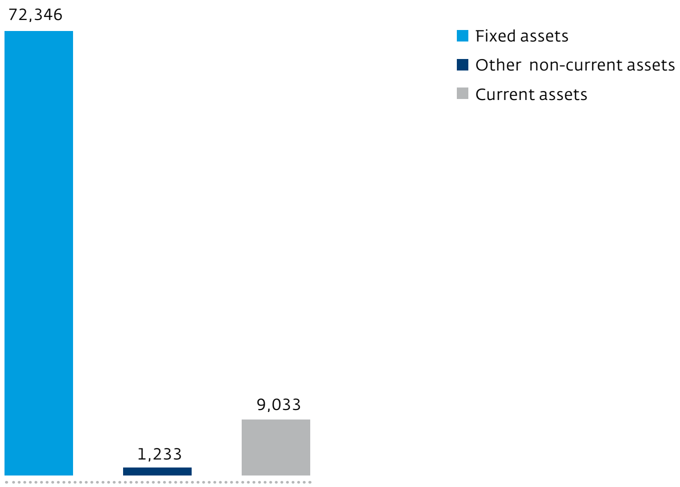
The ČD Group's consolidated operating revenues increased by CZK 1.9 billion, on a year-on-year basis, of which the sales from the principal activity increased by CZK 1.3 billion, which equals 3.9% year-on-year. The positive increase in sales from principal activities is mainly attributable to the increase in sales from passenger transport and the increase in sales in the cargo transportation segment. In the area of transport performance, the number of passengers increased year-on-year, principally as a result of the increasing quality of the transport services and the railway carriage fleet. The cargo transport segment's increase was principally driven by a modest growth of the economy.

The positive development trend in the Company's business in respect of operating costs was achieved thanks to significant savings of payroll costs resulting from rationalisation measures implemented in 2010 and 2011 that compensated (even in a much greater amount) the increasing costs, mainly for traction electricity and diesel.

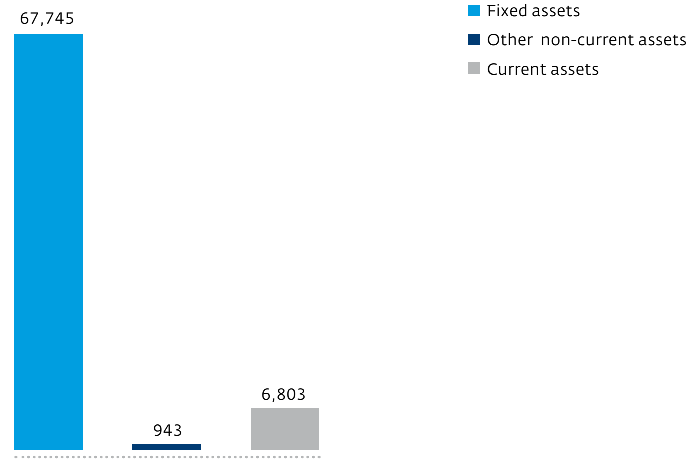
The above-named factors had a very positive influence on the development of the operating profit, which grew year-on-year to CZK 998 million, as compared to last year's loss of CZK 955 million. The EBITDA indicator showed a similar positive year-on-year increase by more than 43%, reaching CZK 6.7 billion.

Despite reported other financial expenses that principally arose from exchange rate losses from the re-valuation of payables denominated in foreign currencies, the ČD Group generated a net profit after taxation in the amount of CZK 95 million, or after the inclusion of the profit from discontinued operations in the amount of CZK 491 million respectively.

Asset Structure 2011

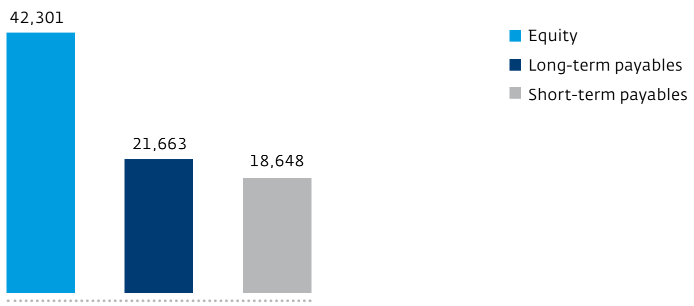


Asset Structure 2010

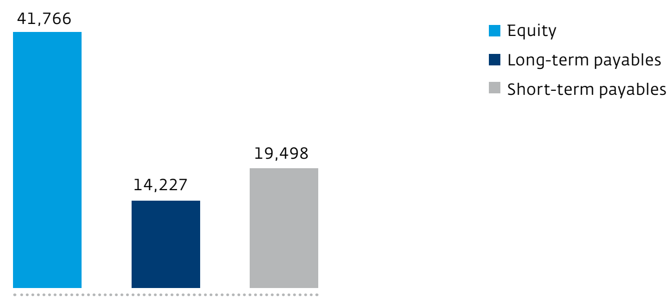


On a year-on-year basis, total assets increased by CZK 7.1 billion. The most significant increase was achieved in respect of fixed assets, which is attributable to the continuous investment activities in railway carriages, principally in the passenger transportation segment. Current assets increased year-on-year by CZK 2.2 billion, which was primarily thanks to the increase in cash and cash equivalents, specifically the balance of cash obtained under the issuance of bonds (Eurobonds).

Liabilities Structure 2011

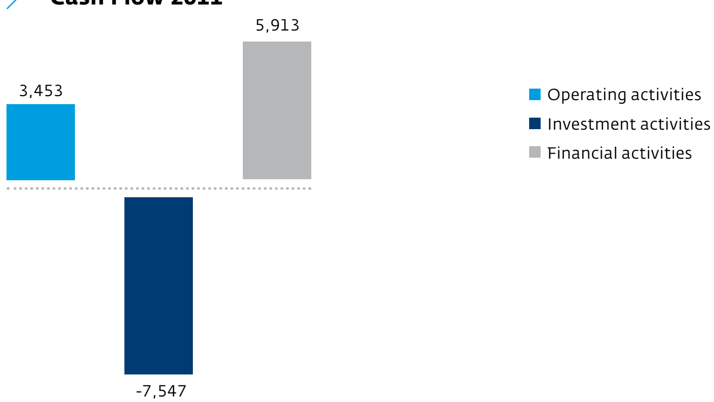


Liabilities Structure 2010

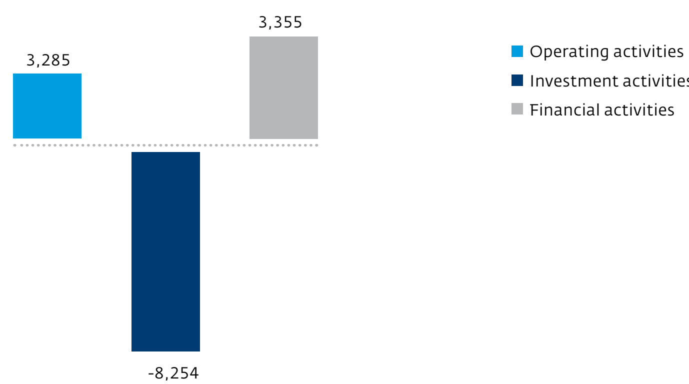


Under liabilities, in 2011 there was a significant increase in long-term payables, which was attributable to the issuance of bonds (Eurobonds) in the amount of EUR 300 million (approximately CZK 7.5 billion) and private issuances made by the Company's subsidiary, ČD Cargo, in the aggregate amount of CZK 2 billion. Through the issuance of bonds with maturities of up to five years, the Company's capital structure was significantly strenghtened. Based on the above-named issuance, the Company gained a significant volume of funding for the modernisation of the railway carriage fleet. Even though the Company's long-term payables have increased, the proportion between total liabilities and equity remains on a safe level.

Cash Flow 2011



Cash Flow 2010



The increase in the operating profit has a positive impact on the development of operating cash flow. The investment activities of 2011 are comparable to the previous year. In addition, the Company continues in its sizable capital expenditure activities related to the necessary modernisation of the railway carriage fleet. Net investment cash flow in passenger transportation in 2011 amounted approximately to CZK 6 billion and in cargo transportation to CZK 1.5 billion. For funding investments, the Company partially used external funding, ie principally funding gained from the issuance of bonds, which resulted in the increase of cash flow from financial activities.

Profit/Loss by Principal Activity Segment

CZK million		Passenger transport	Management of operations	Asset management	Management oftransport	Other	Elimination and reconciliation*	Total
Sales from principal activities	2011	19,180	3,275	1	14,378	1,486	-4,482	33,838
	2010	18,858	5,246	3	14,098	6	-5,651	32,560
Purchased consumables and services	2011	-10,268	-183	-721	-8,281	-4,042	5,714	-17,781
	2010	-10,234	-278	-689	-8,491	-2,497	4,976	-17,213
Payroll costs	2011	-6,863	-2,853	-264	-4,431	-1,523	3,137	-12,797
	2010	-7,326	-4,666	-323	-4,648	-1,738	5,114	-13,587
EBITDA from continuing operations	2011	**1,734**	**25**	**719**	**1,318**	**522**	2,354	**6,672**
	2010	**1,251**	**-8**	**219**	**986**	**158**	2,004	**4,650**
Depreciation/amortisation	2011	-1,854	-32	-230	-1,218	-323	-2,016	-5,673
	2010	-1,692	-34	-220	-1,111	-416	-2,132	-5,605
EBIT from continuing operations	2011	**-120**	**-7**	**489**	**100**	**199**	338	**998**
	2010	**-441**	**-42**	**-1**	**-125**	**-258**	-88	**-955**
Profit (loss) for the period	2011	**-583**	**256**	**488**	**-72**	**233**	169	**491**
	2010	**-8**	**0**	**17**	**-427**	**124**	-687	**-981**

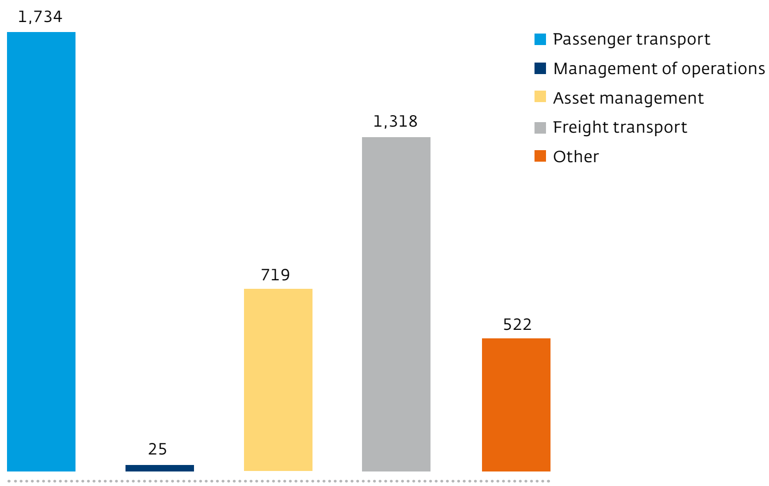
* The "Elimination and reconciliation" column includes the elimination of intercompany relations and differences between values based on the Czech accounting standards and values based on the IFRS.

PASSENGER TRANSPORT

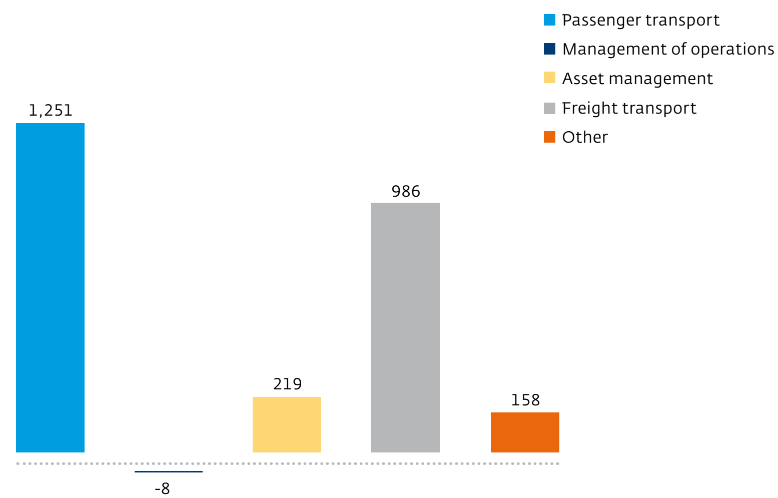
In 2011, the operating loss incurred in the passenger transport segment was lower than in 2010 thanks to the increase in sales from principal activities and the savings achieved in the area of payroll costs. The aggregate sales from principal activities increased year-on-year, largely thanks to increased sales from passenger transport and increased payments received for services rendered under the public service obligation. On a year-on-year basis, the sales from passenger transport increased by CZK 216 million, which is attributable to the increase in the number of passengers achieved despite competitors entering the passenger transport market. In comparison to the previous year, the number of passengers increased by 3.1 million, which was thanks to the higher quality of services offered and the increasing quality of the railway carriage fleet. The compensations obtained from customers for services under the public service obligation increased by CZK 146 million.

Despite the increase in traction costs by CZK 150 million and the increase in payments received for the use of the railway transportation infrastructure in the amount of CZK 238 million, other items included in purchased consumables and services were decreased so that there were almost no changes in the year-on-year costs of purchased consumables and services. The savings have been positively influenced

The EBITDA indicator by segment 2011



The EBITDA indicator by segment 2010



by the modernisation of the railway carriage fleet, which contributes to the decrease in costs related to the repair and maintenance of railway carriages. In addition, significant savings were achieved in the area of payroll costs, which decreased by CZK 463 million, as a result of enhancing the Company's efficiency and the implementation of rationalisation measures.

The increase in sales and significant savings of costs have been positively reflected by the year-on-year improvement of the operating economic result – the Company managed to decrease its year-on-year operating loss by CZK 321 million. Even though the development in the area of operating economic result has been successful, in the passenger transport segment a loss of CZK 583 million was incurred. This is attributable to the higher financial costs arising from foreign exchange rate losses, principally due to the re-valuation of payables denominated in foreign currencies and the increase in interest costs.

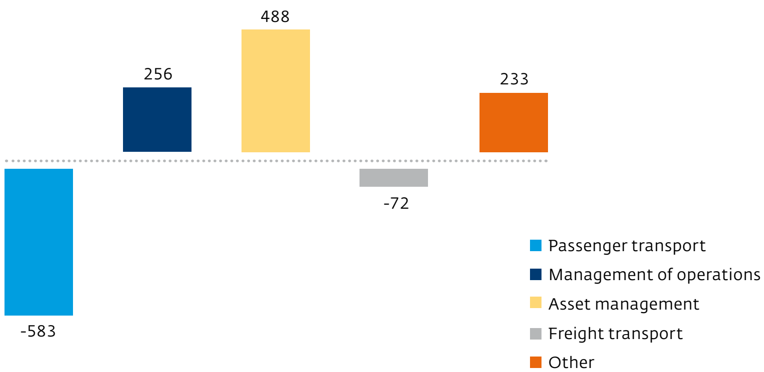
FREIGHT TRANSPORT

2011's modest economic growth had a positive impact on cargo transport for which in a slight year-on-year sales increase was reported. In 2011 the best results were achieved in the transportation of the following commodities: brown coal, construction material, iron and machinery products, and in combined transport. The savings in the area of purchased consumables and services were achieved principally thanks to the year-on-year decrease in payments for the use of the railway transport track, for which a certain discount level was gained. In addition, there was a significant decrease in staff costs, specifically by CZK 217 million, arising from the continuous optimisation of the number of employees in the cargo transport segment.

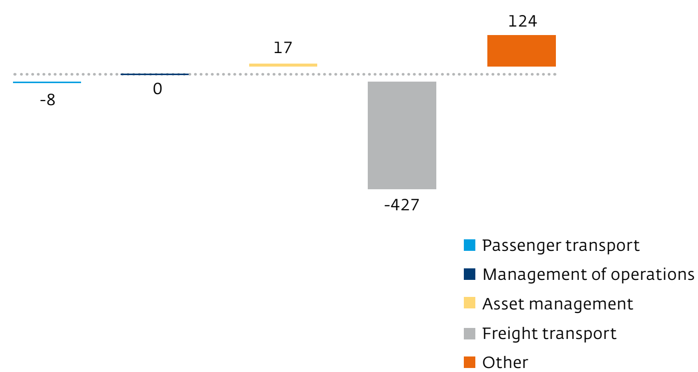
MANAGEMENT OF OPERATIONS

As of 1 September 2011, the activities in the transport operations segment were transferred to Správa železniční dopravní cesty, s.o. The

The Profit (Loss) Indicator for the Year by Segment 2011



The Profit (Loss) Indicator for the Year by Segment 2010



economic results in this area for the period from January to August 2011 were stable. The result was positively influenced by the gain arising from the sale of the operational management section to SŽDC in the amount of CZK 265 million.

ASSET MANAGEMENT

The economic result of the asset management segment improved, year-on-year, thanks to increased sales of non-essential assets by CZK 471 million. The funds gained from the sale of assets primarily serves as an additional resource for the funding of investments.

INFORMATION ON THE FINANCIAL POSITION AND FINANCING OF THE ČD GROUP

ČD has maintained a conservative financing policy, which is based on the use of diverse funding resources in the form of bank loans, the issuance of bonds, promissory note p programme, etc. The Company tries to maintain a balance between short-term and long-term funding and uses a strong diversified portfolio of strong bank institutions on both the local and international markets. Under the loan facilities provided, the Company draws the necessary volumes of funding and maintains a sufficient reserve of non-drawn committed loan facilities.

In 2011, the funding for the Group's investment and operational needs was secured through the combination of internal and external short-term funding (overdraft loan facilities and a promissory note programme) and long-term resources (bonds).

Obtaining the Baa 1 rating with a negative outlook from Moody's was a turning point for the Group's funding. It was ČD's strategy to obtain the rating within an investment grade category, to enter international capital markets and to realise its first issuance of international bonds. ČD has issued international bonds in the amount of EUR 300 million that were accepted for trading on the regulated market of the Luxembourg Stock Exchange. The issued Eurobonds mature in 2016 and bear an annual coupon of 4.5%. The funding from the Eurobonds is mainly intended for the modernisation of the railway cars fleet. Out of the aggregate value of the issued bonds, the amount of EUR 240 million is hedged against the foreign exchange rate risk.

In 2011, ČD Cargo, which is the largest subsidiary of ČD, established a medium term note program with the maximum authorized amount of CZK 6 billion and an expected maturity of up to 10 years. In 2011 three private placement issuances were realised under the programme. The first bond issue at the amount of CZK 1 billion was realised on 20 June 2011; the bonds mature in 2016 (including a put option in 2014) and carry a coupon with the yield of 3.183% p.a. from the first to the third year, and 5% from the fourth to the fifth year. The other two issuances were realised on 21 and 22 December 2011 in the amount of CZK 0.5 billion each. The bonds issued on 21 December 2011 mature in 2016 and pay a fixed coupon of 3.80% p.a. The bonds issued on 22 December 2011 mature in 2015 and pay a floating interest rate based at 6M PRIBOR plus a spread of 1.30% p.a. In 2011, under the medium term note program, ČD Cargo issued bonds in the aggregate amount of CZK 2 billion.

FUTURE OUTLOOK

Even though in 2012 the entry of another competitor into the railway transport market is expected, the primary ambition of the passenger transport segment is to maintain the trend of the increasing number of passengers, and thus increasing sales. The continuous quality enhancement of railway carriages offered is the principal pre-condition to achieving the Company's goals for growth in this segment. The effect of the increase in VAT on the sales and profit should be compensated for by a proportional adjustment of fare in domestic and international transport. The major risk to the economic results in 2012 is the potential deterioration of the real estate market, which will have an impact on future income from the sale of non-core real estate and the potential increase in the costs that are out of the Company's control. This principally includes the traction costs of diesel, the price of which is derived from global commodity prices and the announced increase in payments for the use of the railway transport track in line with the new price calculation determined by SŽDC. The Company will try to compensate for the potential increase in these costs primarily through on-going saving measures applied in respect of administrative and operating activities.

The goal for the cargo transport division is to maintain its role as the major player in railway cargo transport in the Czech Republic. In the event that favourable opportunities arise, the Company's ambition is also to grow abroad. In respect of the still-uncertain economic outlook, in 2012 the Company intends principally to focus on the diversification of its commodity portfolio and the development of logistic services with higher added value, which will be enhanced by a gradual development of the co-operation with road transport companies.

In respect of financing in 2012, the plan includes gradual implementation of the Central Treasury and the on-going use of diversified funding resources, principally an additional issuance of bonds. External funding will be based on the combination of bonds, loans provided by international institutions, such as the European Investment Bank, to be primarily used to co-fund activities under European regional operational programmes, and short-term overdraft loan facilities, as well as the promissory note programme for the management of operating liquidity.

PASSENGER RAILWAY TRANSPORT OPERATION

In 2011, the contracted profit from ordered passenger transport was negatively influenced by the non-reflection of the inflation increase pursuant to the *Memorandum of the Government and Regional Administrations on Securing the Funding for Regional Railway Passenger Transport* and as a result of the developments related to traction and non-traction electricity. In compliance with long-term contracts, some customers published their intentions to gradually open the transport market, principally in the area of long-distance transport. Another change included the removal of the InterCity (IC) train category from the state's order of long-distance transport.

Under the order made by the state, contracts on public service obligation (ZVS) include the train categories starting fast trains (R) and higher, except for trains pulled by 680 units. In addition, the contracts include selected express trains as based on agreements with the regions. Since the change in the 2011/12 timetable, a critical change was made in the contract system for long-distance transport as to remove all trains of the Ex category and higher on the Prague – Ostrava track from the state's order. As such, since 11 December 2011, the operation of direct trains on this track by ČD is performed solely at ČD's own business risk. The orders made by regions include the Os category trains, all express trains, up to some exceptions, and selected fast trains (R), in the event that these were agreed with the customer for long-distance transport. Moreover, the trend of decreasing the scope of non-contracted regional cross-border transport on individual border crossings continued. This trend continues also in the 2011/12 timetable. Another positive feature was maintaining the year-on-year decrease of the number of train-unit and locomotive trips.

In preparing the timetable, ČD met the requirements of the customers while taking into consideration the infrastructure capacities and availability of suitable railway carriages. Attention was primarily paid to changing connections. Unfortunately, the Company had to face a situation from 2010 again, which featured external efforts to discontinue railway operation on some regional tracks owned by the state. In some regions, changes were made in the transportation service system as based on the country-wide implementation of the integrated transport system (IDS). The deficiencies arising due to the IDS organiser's insufficient attention paid to connections with bus transportation are being tackled on an on-going basis through changes in the timetable.

2011 was a break-through in respect of the modernisation of the railway carriage fleet using EU funding. Projects were submitted in all NUTS regions. All projects submitted in 2011 were approved by individual NUTS for funding and contracts for the provision of subsidies were concluded; in respect of projects submitted additionally, the contracts are being negotiated. In 2011, the first physical deliveries of carriages under regional operating programmes (ROP) were realised, specifically for the Liberec and Vysočina region.

In 2011 a number of projects were launched that are important both for customers and the acceleration of internal decision-making processes that, in return, have a positive impact on passengers. Firstly, the on-line project for the interconnection of portable cash registers for conductors continued. In addition, in mid-2011 the Company switched to electronic processing of train documentation in order to enable availability of the necessary data both to the railway operator and ČD as the transportation company. Projects focusing on the enhancement of the customers'satisfaction received great support. Specifically, they were focused on service quality, train and railway station cleaning, modernisation, the greater comfort of the railway carriage fleet and greater information quality.

In addition, the development of suburban transport in Prague continued, including the interconnection with the Prague Integrated Transport system in the Central Bohemian region. Also, transport connections were maintained and slightly enhanced in respect of the city-pass-through model for transport services leading through the capital city of Prague.

In terms of in-country transport, specifically the 680 Pendolino units of the SC train category, a slight enhancement was achieved on the Praha – Ostrava track. Moreover, the trains used for connections at heavy-duty times on the track to and from Žilina were extended. In terms of international transport, the use of 680 units used for train connections to Bratislava was discontinued. For trains of the Ex category operated on a commercial basis on the Prague – Ostrava track, the time-keeping transport system as in previous years has been maintained. A significant change is the use of the maximum speed of 160 kilometres per hour in specific sections of the track, when the infrastructure allows this.

THE RAILWAY CARS FLEET

In 2011 twenty high-performance tree-system electronic locomotives of the 380 type with maximum speed of 200 kilometres per hour were produced. Fifteen of these locomotives have been used for pilot operations in passenger transport in the Czech Republic. In addition, the Company expects the trains' international homologation which will enable the planned use of the locomotives in the international fleet operated across Central Europe.

The re-construction of 34 passenger carriages of the BTE type into driving carriages continued and individual carriages were gradually put into use in the following regions: Ústecký region, Central Bohemian region, South-Moravian region, and the Zlín and Olomouc regions. The use of driving carriages enables ČD to make the operation of passenger trains pulled by classical locomotives more efficient. In addition, adjustments have been made to the driving systems of the following locomotive types: 163, 242 and 362 for remote control, which is an indispensable pre-condition for arranging these into reversible units that include driving carriages.

Moreover, the modernisation and engine replacements in diesel locomotives of type 750 continued, which were upgraded to type 750.7. Out of the total of 19 locomotives ordered, fifteen have already been delivered.

The modernisation of the buffet cars continued, which principally included the installation of additional, more-modern equipment.

As of October, ČD launched the operations of new Regio Shuttle diesel cars (type 840 and 841) in the Vysočina and Liberec regions

In late 2011 the seventy-fifth electric CityElefant unit of type 471 was delivered, representing the last of the penultimate delivery series.

Thanks to the modernisation and acquisition of new carriages on one hand and the disposal and sale of obsolete and unnecessary carriages on the other, in 2011 the average age of driving vehicles decreased by more than two years; in respect of passenger railway carriages the age decreased almost by one year.

SALES AND MARKETING

The sales and marketing activities focused on the greater efficiency of current sales offerings and the promotion of specific products, the goal of which was to increase sales. Great emphasis was placed on a customer-oriented approach and the enhancement of the quality of the travel experience, especially in higher-category trains. The major marketing priority was the In-karta card, ie its development and communication support.

ČD's sales activities were primarily focused on the enhancement of direct sales to firms, principally in respect of the use of trains for business trips of employees. An important counterpart of the sales activity included sales through external distribution channels. Moreover, the co-operation with organisers of cultural festivals was significant. Through the offering entitled "Children on a Trip" (Děti na výlet), the youngest generation, ie school children, were addressed. For ČD's and SŽDC's cashiers, a motivation contest was organised.

The communication support of key business and marketing pillars focused on the support of regular travel on selected long-distance and regional tracks as part of the ČD Tiket pillar. ČD created product awareness of the Sporotiket Česko ticket and the In-card applications through ČD Promo offers, which motivate travellers to take the train.

The key objective of the marketing communication was to create awareness of new applications within the customer ČD In-card.

The process of application of new corporate colours continues; in 2011, 56 locomotives and 417 cars were repainted.
The major instrument of internal communication remains the internal newspaper, Železničář (the Railwayman) and the Company also continued to publish its magazine for children, Můj vláček (My Little Train), the mascot of which, Elfík the elephant, was used in a number of marketing activities. The customer magazine, ČD pro Vás (ČD for you), offers railway and lifestyle topics for the wider public.

TARIFF PRODUCTS

In 2011 the sales from passenger transport increased by CZK 216 million. The number of passengers transported in 2011 was 165.8 million, which represents a year-on-year increase of 1.9%. The transport performance was 6.635 million person-kilometres, which represents a year-on-year increase of 1.3%.
In domestic transport, major sales arose from direct sale of tickets at ČD cash desks. The increase in sales continued even after a non-state-owned transport company joined the market. ČD's ability to maintain the increase in sales principally resulted from system changes made in ČD's tariff implemented starting December 2010 and thanks to an active sales policy.
As a result of the ČD Promo promotion activity for the Prague–Brno connection, a significant year-on-year growth in the number of passengers was achieved, ie approximately by 40%.
The increase in sales was also attributable to a significant increase in income from the integrated transport system (IDS), which was principally thanks to the system's expansion.
In December, the basic ČD tariff was increased by 5%, as a response to the increase in the reduced-rate VAT.
For SC Pendolino connections, so-called dynamic seat reservation tickets were introduced with the goal of allocating the transport capacity also to trains with lower utilisation.
In international transport the growth of sales was achieved despite the reduction of its volume made starting December 2010, which was principally performed by discontinuing night trains (ie to the following destinations: Zagreb, Zurich via Linz, Vienna and Zvolen). In addition, during 2011the number of cross-border regional railway connections to Slovakia was reduced. Of the international tariff products, the most commonly sold is SporoTiket Evropa, which is sold via ČD's eShop.
Moreover, for the first time the number of trains was additionally increased for the Christmas holiday season, thanks to which the customers' demand could be met and more passengers were transported.
ČD has launched the second generation of its eShop, through which the process of purchasing tickets was simplified and accelerated. As such, purchases are now possible without registration. The principal advantages of the new eShop include automatic recommendation of the cheapest available ticket for the intended trip, displaying the ticket price at the very beginning of the process and a guaranteed price that will not change before the purchase is completed. Additionally, another new service is the free SMS info-service, which informs users in advance on their relevant trains and potential delays via text message.

PRODUCTS

▸ IN-KARTA

In order to increase the impact of the IN 25 and IN 50 applications, an intense campaign was led to support these. In addition to the 2011/12 timetable, the IN 25 application was enhanced by the option to purchase IN 25 START, a three-month start-up application. In addition, the IN business offering was expanded by a three-month application. In 2011, in total 323,690 applications were sold.

▸ ČD-KURÝR

The system created for the product includes 147 stations in the territory of the Czech Republic, of which 20 stations are accustomed to the Inter Kurýr system. In the first half of 2011 a direct campaign was led to support the product, under which 3,000 potential customers were addressed. In total 202,979 shipments were submitted to be dispatched under the system and the sales excluding VAT amounted to CZK 24 million.

▸ AUTOMOBILE-TRAIN

The transport of automobiles was realised via night trains on the

Prague–Poprad-Tatry–Košice line and via the day train on the Prague–Košice line. For this purpose, trains were purchased from ÖBB that enable the transport of larger cars of up to 196 centimetres in height. In 2011, a total of 12,663 cars, 417 motorcycles and 23,735 passengers were transported.

ČD TAXI

On 1 September a new product was launched in the following stations: Prague main station, Brno main station, Ostrava main station and Ostrava – Svinov. The service is intended for passengers with a valid train ticket for ČD carriages or a valid In-karta card for any application. By the end of 2011, 514 taxi rides had been taken.

CATERING

Under the 2010/11 timetable, a total of 77 buffet cars were operated and in the other 106 trains the sale of refreshments was provided through train minibar delivery.

SERVICE QUALITY ENHANCEMENT IN SELECTED EC/IC TRAINS

The pilot project was launched at the beginning of February. During the year, the project was expanded to all Ex/IC and EC trains on the Prague – Ostrava line. In addition, selected EC trains on the Prague – Brno track remained included in this initiative. Under this project, the train hostess service for first class was introduced, which includes the distribution of daily newspapers and free hot or cold drinks.

SERVICE QUALITY ENHANCEMENT IN SC PENDOLINO TRAINS

From mid-2011, the distribution of daily newspapers and free water also started in second class. Gradually, 230V electricity plugs were also installed in second class carriages. Since 2011, quiet zones have been established. In 2011, as many as 944,685 seat reservations were sold, which represents a year-on-year increase of 7.3%.

RE-BRANDING OF THE NAVIGATION SYSTEM AND CASH POINT SIGNS

In late 2010, the re-branding of the navigation system and cash point sing postings began in Brno. Subsequently, these activities continued in 25 other railway stations. The goal of the effort is to achieve a unified visual image for ČD's corporate identity.

In addition, ČD realised additional services, such as the **Airport Express** (direct coach connection between Prague main railway station and Prague Airport, daily in 30-minute intervals, for which solely low-floor coaches are used), and **ČD BIKE** (which provides an option to borrow a bicycle in selected train stations of nine regions).

ASSET MANAGEMENT

In 2011, the administration of ČD owned 6,212 buildings, of which 1,172 were railway station buildings that are accessible to travellers. The number of redundant buildings was reduced by approximately 270, of which 217 were sold while the others were demolished. At the year-end, ČD's buildings included 3,561 apartments.

A total of 39,058 external and 22,108 internal lease contracts were concluded for ČD's buildings, premises in the buildings, and land. The aggregate income from asset management amounted to almost CZK 1.8 billion. The profit from external lease contracts amounted to CZK 289 million, the profit from the sale of redundant immovable assets amounted to CZK 638 million.

The major sales of assets included the sales of sets of immovable assets in Prague (Nové Město, Karlín and Hrdlořezy), Olomouc Hodolany and Brno Maloměřice.

In ensuring services for passengers, ČD's railway station buildings represent the most important assets. In the past, some of these buildings had fallen into a poor state of repair; therefore, increased focus has been given on their maintenance, repair and renovation, and the care for these buildings represents a material cost component. Optimisation in the area of railway station building management is also related to ČD's endeavour to provide systemic solutions for the recovery of the operations of publically-accessible premises. Pursuant to the Railway Act and its executive decrees, railway station and railway stop buildings ("railway station buildings") are part of the railway system, regardless of who the owner of the buildings is.

As such, ČD is also obligated to enable access to publically-accessible premises to other transportation companies in a non-discriminatory manner. However, the accessibility and availability of the relevant premises or services cannot be provided free of charge any longer. That is why ČD is seeking a method to charge for the accessibility of premises. In particular, ČD is trying to find a fair method for the allocation of the administration, maintenance and cleaning costs related to the relevant premises between the participating transportation companies.

With a view to current needs and the services provided at individual railway stations, many railway station buildings have extensive redundant capacities. For an economically-defensible possibility of use, the size of the buildings must be optimised so that their entire size is usable for the provision of transportation-related services as well as the related commercial activities.

ČD's investment strategy is based on comprehensive solutions for selected locations. In addition to renovation activities as such, ČD makes efforts to cooperate with municipalities or the infrastructure business in finding solutions for the railway station premises as well as the surrounding areas.

In 2011, 17 railway stations were renovated. The aggregate amount incurred on repairs and investments in this area was CZK 336 million. For instance, the following railway stations were reconstructed: Plzeň main station, Ústí nad Labem Střekov, Kladno Dubí, Poříčany, Žďár n/Sázavou, Chrlice, Kyjov, Havlíčkův Brod, Nové Město na Moravě, Chotěboř, Olomouc and Uničov.
From the renovation activities performed in 2011, particularly the first phase of the complex renovation of the huge historical railway station building of Plzeň main station must be highlighted. In addition the first phase of renovation of Masaryk station in Prague took place, particularly the repair of the roof of the check-in hall, which grand opening to the public took place on 2 December 2011. The revitalisation of Brno main station is being carried out in line with the revitalisation schedule.

OTHER ACTIVITIES

EMPLOYMENT POLICY AND SOCIAL PROGRAMME

In 2011, the process of ČD's transformation into a modern and effective company providing high-quality services in the area of railway transport continued. HR work focusing on optimising the staffing structure and the socially-sensitive reduction of the headcount while maintaining the employment rate necessary for the effective functioning of the Company and the increase in the quality of provided services corresponded to this concept. The most significant change with regard to employment was the transfer of 9,326 employees of ČD to SŽDC.

The average reported headcount recalculated to full-time employees amounted to 22,640 from January to December 2011, which represents a decrease of 4,352 employees compared to the preceding period (January to December 2010). As of 31 December 2011, the Company had 16,240 employees, which represents a decrease of 9,760 compared to 31 December 2010.

The staff costs for the period from January to December 2011 amounted to CZK 10.6 billion, of which payroll costs amounted to CZK 7.7 billion. The average salary in 2011 amounted to CZK 27,060, which represents a 0.95% decrease in the nominal salary and a 2.80% decrease in the real salary compared to the preceding year (with the consumer prices index amounting to 101.9%). Other staff costs include severance pay to departing employees that exceeds the Labour Code requirements (severance pay according to the Collective Agreement of ČD, a.s. and the costs of implementing the complementary social programme) totalling CZK 154,288 thousand.

The headcount optimisation will continue in 2012. In 2012, the realisation of payments under the complementary social programme pursuant to Government Decree No. 370/2007 Coll. will be terminated. Emphasis on the social acceptability of reducing the headcount in cooperation with trade unions will remain one of HR's priorities in 2012.

The General Directorate of ČD started the employee evaluation process, the major objective of which is to increase employee motivation and performance. In order to ensure the complexity of the evaluation process, a competency model was created for ČD management, which will be expanded to lower positions in 2012. The implementation of the evaluation process in other organisational branches of the Company will take place in 2012. In line with ČD's strategic goals in the area of increasing the quality of customer communication, several education projects were launched in which the participants – employees who are in direct contact with the customer – improve their customer communication skills. As part of the prevention of crisis situations, several dozens of operating employees who are in direct danger due to aggressive passengers participated in a training focused on one's behaviour in and the management of such situations. These training programs will continue in the coming years.

In line with legislation and in cooperation with the trade unions, another priority involved the monitoring of employees' medical fitness and the impact of performing their jobs on the employees' health. In 2011, 23,647 preventive medical examinations, including 2,492 examinations prior to the start of a period of rehabilitation, were completed. Furthermore, 407 examinations were completed as part of preventive care in the workplace.
Close cooperation with selected education facilities continued, including 13 high schools and 7 universities. In 2011, a total of 207 students of high schools of transport participated in the Čédés grant programme. In 2011, 12 graduates started their professional career at ČD.

INTERNATIONAL RELATIONS

In 2011, ČD continued in its efforts to enhance the efficiency of its international relations to the maximum extent and the level of participation continued to be significantly limited in cases where ČD's activities did not contribute to the creation of optimum conditions for integrating the Czech railway network into European networks or where the achieved results did not correspond to the funds incurred.

ČD's interests were advanced in particular in the Community of European Railway and Infrastructure Companies (CER), which is currently the most significant European railway organisation, having a significant impact on the creation and application of European railway legislation. In addition to its own representatives, who are active in a number of work panels in which they influence the preparation of essential documents in order to comply with the interests of the Company, ČD used all available instruments resulting from the membership of the Czech Republic in the European Union (including European Parliament members) to enforce its own standpoints in documents that are valid across Europe.

In the other renowned international railway organisation, the International Union of Railways (UIC), ČD strived through its representatives in individual bodies to increase this organisation's productivity as much as possible while minimising the related expenses. In 2011, ČD predominantly strove to reduce its expenses arising from its participation in the UIC's activities. ČD participated in projects that were necessary in regards to the interoperability and inclusion of ČD in the European railway network or that were to provide internal savings in resolving capacities.

In addition, ČD enhanced its role as the coordinator and administrator of the ČD Group's membership in the Organisation for Railway Cooperation (OSŽD). Through its representative at the OSŽD Committee, ČD made multiple comments on this organisation's prepared new statutory documents. One of the most significant activities in this area is the involvement of ČD's specialists in the activities of the CIV/SMPS common working group, whose task is to bring legal systems together, which should result in the preparation of a unified European transportation law.

In the area of bilateral relations with neighbouring railway companies, ČD signed contracts on cross-border transportation with all Slovak railway companies, with the subsidiaries of the Polish PKP and with all members of the German DB Group that participate in cross-border transportation. These new contracts, which replaced the original "Agreement on cross-border railway transportation", reflect the current situation, which originated after the division of railway businesses into transportation companies and infrastructure administrators, and respect the conditions pursuant to EU directives. In 2011, significant progress was made with the preparation of a new contract for cooperation in passenger transport between ČD and the Austrian ŐBB Personenverkehr.

ENVIRONMENTAL PROTECTION

In the area of environmental protection, ČD focuses on the minimisation of all possible risks and impacts related to the Company's principal activities in line with the requirements of the legislation and the related legislative measures.

The quality and environmental department ensures the following activities:

- Maintenance of greenery on ČD's premises with a focus on the safety of operations and on the travelling public;
- Killing of weeds, where a mechanical process is preferred to the use of chemicals;
- Waste management;
- Authorised measurement of stationary sources of air pollution, control of combustion efficiency and use of the energy from these sources;
- Monitoring of the quality of drinking and underground water in line with the applicable legislation;
- Elimination of the consequences of extraordinary emergency leakage of hazardous substances into the environment;
- Rehabilitation of ecological pollution caused by accidents in line with the decision of the state administration and self-government bodies;
- Updates to and preparation of accident plans for establishments where harmful substances are used;
- Preparation of the internal environmental audit of České dráhy, a.s.;
- Performance of internal audits in DKV Česká Třebová – PJ Liberec and PP LD Horní Hanychov as part of the fulfilment of requirements of ČSN EN ISO 14001:2005;
- Training in individual areas of the environment; and
- Checks to ensure operations in the area of environmental protection, review of the fulfilment of legal regulations and measures throughout all divisions.

In 2011, all necessary tenders for the elimination of old environmental burdens in the Brodek u Přerova area were concluded. The costs of elimination of environmental burdens in 2012 will be co-financed in the amount of 90% of the aggregate tax-deductible costs from the structural funds of the Environment operating programme. The rehabilitation will be initiated in 2012.

RESEARCH AND DEVELOPMENT

Professional services and comprehensive solutions in the area of assessment, testing and advisory for railway systems and railway transport are provided by ČD's subsidiary **Výzkumný ústav železniční, a.s., (Railway Research Institute, hereinafter "VUZ")**. VUZ specialises in professional services and comprehensive solutions in the area of assessment, testing and expert activities for railway systems and railway transportation. In its Velim Test Centre, VUZ operates its own two railway test rings, which are among the most important and recognised test centres of railway technology and railway facilities in Europe. VUZ is involved in a number of international railway systems and rail transportation projects and cooperates closely with the leading producers, academic institutions and trade unions within as well as outside of the EU. VUZ is a notified entity no. 1714 for assessing compliance with the requirements of the interoperability of the European railway system.

In order to develop certain testing processes or possibilities of offering the services of the Velim Test Centre and the activities of our testing laboratory as part of the research project solution, VUZ sometimes participates in research projects that are financed or supported as part of national or European programmes. In 2011, VUZ participated in three new projects:

- NOVIBRAIL (noise emissions and vibrations in the railway system) – proposal for the solution and review of the real usability of noise simulations in testing and the approval of rail vehicles for operations, particularly using the method of verification of simulation models on the reference rails;
- EUREMCO (EUropean Railway ElectroMagnetic COmpatibility) – support of the interoperability of railway operations through the harmonisation and simplification of certification (homologation) procedures; and
- D-RAIL (Development of the Future Rail Freight System to Reduce the Occurrences and Impact of Derailment) – definition of the causes of the derailment of freight cars and the subsequent system changes and new security measures in order to reduce the amount of derailments and to mitigate their consequences.

In addition, ČD actively participates in the UIC Research Coordination Group, particularly in the UIC workgroup that is active across the UIC forums, which, in cooperation with UNIFE, coordinates activities in relation to the 7th Framework Programme for Science and Technological Development, and, with regard to interoperability issues, CER workgroups solve the implementation of TSI (technical interoperability specifications) in individual national environments from the perspective of transportation companies.

INFORMATION TECHNOLOGY

In the middle of 2011, a new **2nd generation eShop** for ČD passengers has been launched and its popularity is gradually increasing. At **www.cd.cz**, customers can also find an English version and a new browser; the website will now also be accessible via mobile phones. At the same time, the analysis of other check-in systems was completed, which will gradually be developed and modernised. New ticket printers using thermo-print, which enables eg the 2D code, are prepared for launch.

For planning the diagram, the **KASO** application was used and, at the same time, the analysis of the possibility of short-term and long-term planning was initiated. The objective is to plan transport with concern for the long-term horizon not only from the perspective of transport orderers but also from the perspective of passengers' preferences, and to predict better the economy of the transport. **Passenger transport dispatching** is also regarded as an integral part of passenger transport management by ČD; the selection procedure is currently in progress and the realisation is planned for the following years. In the area of rail vehicles, we are planning to use an application to monitor diesel oil consumption.

With regard to cooperation with the regions, ČD is integrating passenger check-in using an integrated transportation system. The project with the Liberec region was finalised and a project with the Moravia-Silesia region will be launched next year.

In 2011, a major shift was made in the reporting and collection of information about train rides. In mid-2011, reporting with regard to the data warehouse ADPV was launched; hence, paper records of train inventory and the use of the old TP412 system were terminated. Thus, the **train documentation** on transferable personal portable cash register (POP) devices will be fully automated. At the beginning of 2012, POP will also be provided by an on-line module and a 2D code reader, which will enable one to send the current data a few seconds after their entry. Economic reports were also supported by the **SAP BW** data warehouse, which enables access to more-difficult reports in the area of controlling and warehouse management. With regard to HR systems, applications for the support of employee evaluation, a new employee ID card and a train driver's register have been introduced.

INVESTMENT DEVELOPMENT OF THE COMPANY

In 2011 ČD continued in the wide-scale process of modernisation of the rolling stock. The Company concluded contracts for the modernisation of existing vehicles and for the supply of new train units with six suppliers in the aggregate amount of CZK 11.2 billion. In addition to own funds, ČD uses various forms of investment funding, such as leases, bank loans, or issue of bonds, and also funding provided by the European Union under Regional Operating Programmes – specifically for the purchase of regional train units. Modernisation is focused on all of ČD's passenger transportation segments, that is, both regional and long-distance transportation. In 2011, the trend of the greater differentiation of suppliers in the area of the supply of new and the modernisation of old vehicles continued – six different partners are participating in seven new contracts. A significant portion, 65 %, is represented by new buildings.

ČD continued with the renovation of regional trains, which is, as part of Regional Operation Programmes, co-financed from EU structural funds. The most significant was the acquisition of new two-car motor units LINK from the Polish manufacturer PESA Bydgoszcz and new two- and three-car electric units RegioPanter manufactured by ŠKODA VAGONKA. The modernisation of motor and connecting cars through transformation to two-element Regionova motor units and the supply of two-storey suburban CityElefant units continues.

The scope of investments in long-distance transport is continuously increasing. In 2011, ČD concluded a contract for the modernisation of 64 passenger cars for EuroCity and InterCity trains with ŽOS Trnava. For the benefit of its passengers and in order to improve the culture and safety of travelling, ČD made investments in the form of minor maintenance modernisations and renovations in the rail vehicles of almost CZK 600 million, including the signed contract for implementing Wi-Fi devices into units of type 680 – Pendolino, to enable communication via the Internet.

CONSTRUCTION AND OTHER INVESTMENTS

Another important component of ČD's investment activities is made up of building projects. In 2011, the renovation of station buildings in Žďár nad Sázavou, Ostrava-main station, Poříčany, Liberec, Česká Skalice, Týniště nad Orlicí, Chrlice, Chotěboř, Nové Město na Moravě, Uničov, Kyjov and the renovation of the departure hall in Prague-Masaryk station was completed. In order to enhance the culture of travelling, the renovation of railway station restaurants in Břeclav, Lysá nad Labem and Kolín was completed. In respect of the volume of funding to ensure the day-to-day maintenance of passenger train cars, the most significant investments included the completion of the construction of a utility track in Kralupy nad Vltavou and Děčín, the renovation of maintenance halls in Olomouc, Hradec Králové and Liberec and track renovation at the Prague-South railway yard. In total, the modernisation and renovation of immovable assets in 2011 amounted to CZK 490 million.

Last but not least, ČD invested more than CZK 130 million in information technology.

STRATEGIC DEVELOPMENT OF THE COMPANY

In 2012, ČD will continue to focus its particular steps on the fulfilment of its strategic goals, which are structured in five major pillars. The particular priorities are:

1. CUSTOMER ORIENTATION

- ČD will strive to rank among the best passenger transportation providers with a view to quality and customer satisfaction in relation to the increasing competition and the approaching tender for the operation of selected tracks; and
- ČD must customise its offers to client needs to the greatest possible extent and offer comprehensive solutions to customers'/orderers' transportation needs; therefore, sales channels and the price offer, etc will be continuously optimised.

2. ROLLING STOCK MODERNISATION

- The precondition for competitive services is to invest in the modernisation of the rolling stock. České dráhy will therefore endeavour to provide adequate quality services to travellers; and
- The modernisation of rail vehicles is inseparably related to yard process optimisation.

3. CORPORATE/SYSTEM STABILITY

- ČD will continue to support the implementation of the introduction of station fees for the use of stations;
- ČD will continue in the process of the sale of residual assets and the optimisation of the stations' management – solutions of stations with difficult administration, realisation of an optimum scope of services by categorisation; and
- The property relations between ČD and SŽDC must be resolved.

4. GOVERNANCE

- The managerial leadership principles within the ČD Group are based on a clearly-defined framework of corporate governance and compliance rules; and
- The importance of risk management linked with strategic reporting principles will be enhanced.

5. INTEGRATION

- Within the holding, the existence of a subsidiary with core business activities and the maximum use of synergies throughout the Company are being considered; and
- In 2012, the initiation of the realisation of a shared services model within the ČD Group in selected areas, the preparation of the formation of a "Personal Transportation" subsidiary and a "Station and Service" subsidiary are planned.

CONSOLIDATED SUBSIDIARIES

ČD CARGO, A.S.

ČD Cargo's principal business activities are focused on railway freight transportation. ČD Cargo is a leader on the railway transportation market in the Czech Republic and ranks fifth among EU transporters. It also performs its activities through subsidiaries abroad.
In 2011, the key transported commodities included solid fuels, metallurgical products and iron ores. The performance of combined transportation increased by 11 % compared to 2010 due to the positive effect of the launch of the new lines.
For its operations ČD Cargo has 955 traction vehicles and more than 27 thousand freight cars of different types. Its rolling stock can be expanded to include rented cars as required. As many as approximately 20 thousand cars of the total rolling stock are fully capable of international operations under the RIV regime. A major part of capital expenditure is invested in the renewal, modernisation and inspection-based repair of the rolling stock.
In the following period ČD Cargo will principally focus on providing transportation services with higher added value, increasing the yield ratio in the Czech Republic and, last but not least, on promoting its territorial development.
In 2011, ČD Cargo continued to optimise its employee levels and finalised the basic restructuring process at all levels of management. At the same time, a continuous dialogue was held with social partners aimed at maintaining social consensus while applying agreed social obligations.

CD GENERALVERTRETUNG GMBH

Business representation of ČD Cargo for Germany.

CD - GENERALVERTRETUNG WIEN GMBH

Business representation of ČD Cargo for Austria, Italy, partially Hungary, Switzerland and former Yugoslavia .

KOLEJE CZESKIE SP. Z O.O.

Business representation for Poland, Lithuania, Latvia and Estonia.

GENERÁLNE ZASTÚPENIE ČD CARGO, S.R.O.

Business representation of ČD Cargo for Slovakia.

ČD LOGISTICS, A.S.

Storage and handling of material.

RAILLEX, A.S.

Handling of cargo and technical services in transportation.

BOHEMIAKOMBI, SPOL. S R.O.

Mediation of services in transportation except for the transportation by own vehicles.

OSTRAVSKÁ DOPRAVNÍ SPOLEČNOST, A.S.

Operations of railway transportation and lease of locomotives.

DPOV, A.S.

DPOV's production program is focused on the repair and maintenance of rail vehicles. **DPOV carries out** not only modernisations and periodical higher-grade repairs but also regular repairs, repair of damages, operational maintenance and repair of individual functional units of rail vehicles. In 2011, similarly to previous years, the ČD Group companies were the largest customer. However, compared to previous periods, the work done for external customers has also increased.
The major investment task for 2011 was starting the construction of the new shop for the repair of multiple-part motor units in PSO Veselí nad Moravou and completing the shop for repairing wheel sets in PSO Nymburk, where pilot and routine operations have been launched.

A major event in 2011 in terms of ensuring DPOV's long-term goals was the decision to adopt process and project management. The following activities were performed during the year: process management was gradually established, the organisational structure was designed, and the projects for repairing the individual lines of rail vehicles were defined and specified.
In 2011, all economic and financial indicators set out by the business plan were fulfilled and for 2011 the DPOV generated profit.

▸ VÝZKUMNÝ ÚSTAV ŽELEZNIČNÍ, A.S.

Výzkumný Ústav Železniční, a. s. (VUZ) is a company whose business activities are focused on providing special professional services and comprehensive solutions for assessments, testing, and advisory related to railway systems and railway transportation. These services are provided to domestic clients as well as to clients from abroad across the entire EU and other countries.
In 2011, the reconstruction of the superstructure of the large testing circuit and the construction of the new shop for test preparation were completed as part of the extensive investment initiative – the modernisation of the VUZ Velim Test Centre implemented under the "Extension and Development of the Research, Development and Innovation Unit of the Velim Development and Test Centre" project funded from the EU operational programme referred to as POTENTIAL III. The whole modernisation project will be completed in 2012 by the last phase, ie "Modernisation of the Security and Communication Facilities" and "Reconstruction of the Shop for Stationary Tests."
An important factor of the highly-successful economic results in 2011 was the multiple-shift utilisation of the test centre's capacities, regardless of limitations due to the on-going modernisation of the test centre. The improvement of the technical parameters of the large testing circuit (for example, the possibility to test the vehicles at the speed of up to 230 km/h or the improvement of traction electricity feeding for vehicle testing by ensuring the input of 10 MW) has risen the prestige of the test centre and VUZ for customers and the professional public. Other successful initiatives included the further extension of the test centre infrastructure, principally the construction of the new modern HPZ II shop for test preparation. Ultimately, the test centre's development promoted the commercial development of the authorised and accredited activities of VUZ in 2011.
With the completion of the implementation of investment projects initiated in 2009, it will be challenging for VUZ to maintain its high economic prosperity, financial stability and the current prestigious position not only in 2012 but also in subsequent years.

▸ ČD - TELEMATIKA A.S.

ČD - Telematika a.s. (ČDT) is a major provider of ICT solutions and the supplier of services relating to the administration, maintenance and construction of the telecommunication systems required for ensuring the operations and serviceability of the railway infrastructure. Its customers include governmental and self-government bodies, and large domestic companies. ČDT directs a major part of its business activities to the telecommunications sector, where it acts as a supplier of wholesale data and voice services.
ČDT ensures information technologies for the ČD Group through the subsidiary, ie ČDT Informační Systémy a.s.
Regardless of the overall market decline compared to the previous year, ČDT managed to increase its sales by more than 10% in 2011. Hence, ČDT reported record profits, thereby substantially strengthening its position on the ICT market in the Czech Republic. Investments in the telecommunications infrastructure have shown positive effects, allowing ČDT to expand its portfolio of provided services and substantially increase the quality of services.
The key strategy is principally developing new opportunities, growing sales outside the railway infrastructure and transportation sector and further strengthening its strategic partnership with SŽDC in services focused on the administration and servicing of railway telecommunication infrastructure. In the period of the next 3 to 5 years ČDT plans to:

- Complete the sale of the subsidiary or to create another functional model for cooperating with customers from the ČD Group in ICT;
- Continue its cooperation and develop the portfolio of services provided by SŽDC;
- Use the competencies and knowledge with respect to the new customers in the infrastructure, transportation and logistics segments; and
- Develop the quality management system corresponding with the nature of ČDT's products and services, implement an effective corporate management model and further decrease overhead costs.

ČDT - INFORMAČNÍ SYSTÉMY, A.S.

Provision of telecommunication services, software and advisory.

JLV, A.S.

JLV is the largest provider of gastronomic and retail services for travelling customers. Catering services are provided to customers travelling in ČD trains. JLV also ensures accommodation services in sleeping cars and couchette cars for ČD. In 2011, JLV continued to strengthen its cooperation with DB AutoZug in ensuring accommodation and on-board services for night transportation. In 2011, JLV focused on developing gastronomic and retail services. With respect to rail activities, JLV concentrated on increasing the standard of provided services under the New Gastronomy project. In 2011, JLV generated a profit.

CENTRUM HOLEŠOVICE A.S.

The company's activities in 2011 have been reduced due to the changes being made to the zoning plan for the given location so as to allow the declaring of the associated land as a building site.

SMÍCHOV STATION DEVELOPMENT, A.S.

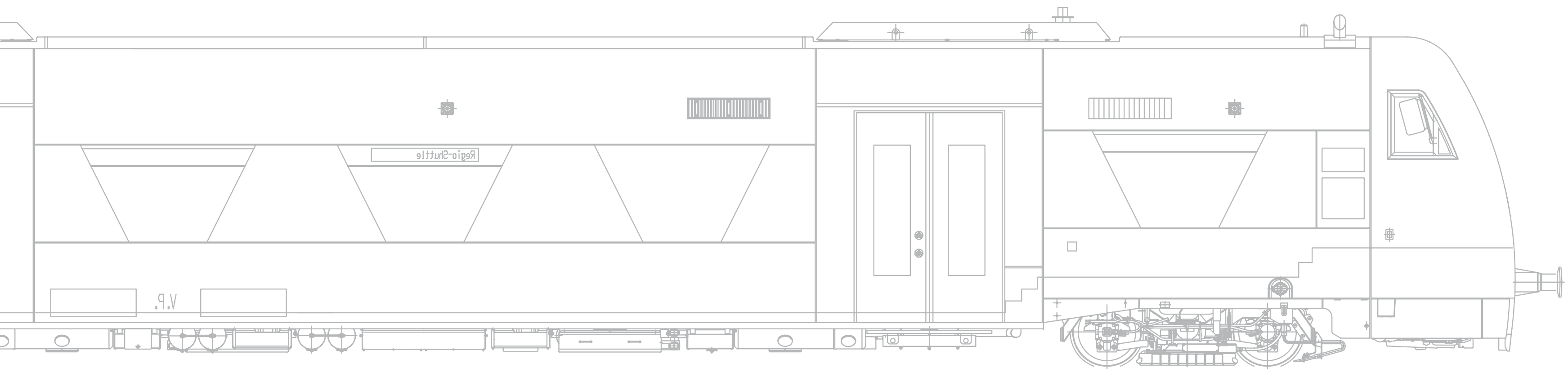
The company's activities in 2011 have been reduced due to the changes being made to the zoning plan for the Praha-Smíchov location.

ŽIŽKOV STATION DEVELOPMENT, A.S.

The company's activities in 2011 have been reduced due to the changes being made to the zoning plan for the given location and due to the initiated proceedings for declaring the building of Nákladové nádraží Žižkov a national cultural heritage site.

SERVICE

Often the passengers' satisfaction depends on details. Therefore, we provide our customers with care that includes a free drink and daily press on selected train connections and free transport of hand luggage and pre-ambulators. In addition, refreshments are provided in buffet cars or mobile minibars. There is also the on-line shop (eShop) where passengers can purchase travel tickets or discount cars, directly from their homes.



Regio Shuttle RS 1

Producer: Stadler (Germany), 14 units currently in operation and additional 19 units on order

Although these carriages are produced in Stadler's Berlin plant, Czech professionals have significantly participated in the development of these trains. In addition, a part of the carriages produced for České dráhy are specifically adjusted for the operations on the steepest Czech track between Tanvald and Harrachov, which in the past was also operated as a rack railway.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ČESKÉ DRÁHY, A.S.

Having its registered office at:	**Nábřeží L. Svobody 1222, 110 15 Praha 1**
Identification number:	**709 94 226**

REPORT ON THE FINANCIAL STATEMENTS

(in accordance with accounting regulations applicable in the Czech Republic)

Based upon our audit, we issued the following audit report dated 10 April 2012 on the financial statements which are included in this annual report on pages 203 to 246:

"We have audited the accompanying financial statements of České dráhy, a.s., which comprise the balance sheet as of 31 December 2011, and the profit and loss account, statement of changes in equity and cash flow statement 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 accounting regulations applicable in the Czech Republic, 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 financial statements give a true and fair view of the financial position of České dráhy, a.s. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

EMPHASIS OF MATTER

We draw attention to the fact that the Company conducts significant business with the supplier of rail vehicles, ŠKODA TRANSPORTATION a.s. The Company reports significant balances of assets, principally on the accounts of prepayments made for the acquisition of fixed assets, acquisition of tangible fixed assets and a significant receivable arising from the contractual sanction for the delay in supplying the 380 series locomotives which has not yet been confirmed by the counterparty. The involved parties have not yet agreed on the approach to finalising this business case and providing a mutual financial settlement. The companies are conducting negotiations and the final form of the agreement cannot be anticipated as of the financial statements date. Our opinion is not modified in respect of this matter."

Report on the Financial Statements
(in accordance with International Financial Reporting Standards)

Based upon our audit, we issued the following audit report dated 10 April 2012 on the financial statements which are included in this annual report on pages 131 to 201:

“We have audited the accompanying financial statements of České dráhy, a.s., which comprise the statement of financial position as of 31 December 2011, 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 financial statements give a true and fair view of the financial position of České dráhy, a.s. as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

EMPHASIS OF MATTER
We draw attention to the fact that the Company conducts significant business with the supplier of rail vehicles, ŠKODA TRANSPORTATION a.s. The Company reports significant balances of assets, principally on the accounts of prepayments made for the acquisition of fixed assets, acquisition of tangible fixed assets and a significant receivable arising from the contractual sanction for the delay in supplying the 380 series locomotives which has not yet been confirmed by the counterparty. The involved parties have not yet agreed on the approach to finalising this business case and providing a mutual financial settlement. The companies are conducting negotiations and the final form of the agreement cannot be anticipated as of the financial statements date. Our opinion is not modified in respect of this matter.”

Report on the Consolidated Financial Statements

(in accordance with International Financial Reporting Standards)

Based upon our audit, we issued the following audit report dated 10 April 2012 on the financial statements which are included in this annual report on pages 57 to 129:

"We have audited the accompanying consolidated financial statements of České dráhy, a.s. and its subsidiaries, which comprise the statement of financial position as of 31 December 2011, 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 its subsidiaries as of 31 December 2011, 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.

EMPHASIS OF MATTERS

We draw attention to the fact that the Company conducts significant business with the supplier of rail vehicles, ŠKODA TRANSPORTATION a.s. The Company reports significant balances of assets, principally on the accounts of prepayments made for the acquisition of fixed assets, acquisition of tangible fixed assets and a significant receivable arising from the contractual sanction for the delay in supplying the 380 series locomotives which has not yet been confirmed by the counterparty. The involved parties have not yet agreed on the approach to finalising this business case and providing a mutual financial settlement. The companies are conducting negotiations and the final form of the agreement cannot be anticipated as of the financial statements date. Our opinion is not modified in respect of this matter."

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of České dráhy, a.s. for the year ended 31 December 2011 which is included in this annual report on pages 249 to 254. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of České dráhy, a.s. for the year ended 31 December 2011 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2011 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company is consistent, in all material respects, with the financial statements referred to above.

IN PRAGUE ON 26 APRIL 2012

Audit firm:

Deloitte Audit s.r.o.
certificate no. 79

Statutory auditor:

Václav Loubek
certificate no. 2037

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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

THESE CONSOLIDATED FINANCIAL STATEMENTS WERE PREPARED ON 10 APRIL 2012.

STATUTORY BODY OF THE REPORTING ENTITY

Petr Žaluda
Chairman of the Board of Directors and CEO

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2011

		31 Dec 2011 CZK thousand	31 Dec 2010 CZK thousand	1 Jan 2010 CZK thousand
Property, plant and equipment*	16	69,682,502	65,037,154	59,024,613
Investment property	17	2,095,000	2,100,440	2,204,523
Intangible assets	18	567,896	607,538	729,124
Investments in joint ventures and associates	19	161,040	116,946	115,367
Deferred tax asset*	13	0	5,441	29,600
Trade receivables	21	6,577	10,098	24,181
Other financial assets	22	947,075	626,571	516,543
Other assets	23	118,326	184,529	232,827
Total non-current assets*		**73,578,416**	**68,688,717**	**62,876,778**
Inventories	20	1,130,194	1,330,580	1,279,736
Trade receivables	21	3,550,338	3,484,872	3,760,040
Tax receivables		4,024	67,789	13,418
Other financial assets	22	270,835	227,557	87,377
Other assets	23	1,321,604	784,591	736,754
Cash and cash equivalents	31	2,538,315	719,461	2,333,396
Assets held for sale	15	217,879	187,768	1,349,720
Total current assets		**9,033,189**	**6,802,618**	**9,560,441**
TOTAL ASSETS*		**82,611,605**	**75,491,335**	**72,437,219**
Share capital	24	20,000,000	20,000,000	20,000,000
Reserve and other funds	24	16,616,402	16,567,630	16,008,086
Retained earnings*		4,817,974	4,358,201	5,346,045
Equity attributable to equity holders of the parent company*		**41,434,376**	**40,925,831**	**41,354,131**
Non-controlling interests		866,849	840,081	1,294,634
Total equity*		**42,301,225**	**41,765,912**	**42,648,765**
Loans and borrowings	25	20,197,402	12,467,085	11,681,990
Deferred tax liability*	13	167,861	75,072	56,800
Provisions	26	221,480	537,467	573,437
Other financial liabilities*	28	694,545	1,064,266	1,953,412
Other liabilities*	29	381,498	83,333	84,424
Total non-current payables*		**21,662,786**	**14,227,223**	**14,350,063**
Trade payables	27	7,606,527	8,133,517	8,307,417
Loans and borrowings	25	6,194,071	6,044,566	1,985,773
Tax payables		21,448	0	7,989
Provisions	26	1,097,990	813,862	337,781
Other financial payables	28	819,598	237,314	387,590
Other payables*	29	2,907,960	4,268,941	4,103,282
Payables arising from assets held for sale	15	0	0	308,559
Total current payables*		**18,647,594**	**19,498,200**	**15,438,391**
TOTAL LIABILITIES*		**82,611,605**	**75,491,335**	**72,437,219**

* Restated as of 31 December 2010 and 1 January 2010, refer to Note 1.6.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

		Year ended 31 Dec 2011 CZK thousand	Year ended 31 Dec 2010 CZK thousand
CONTINUING OPERATIONS			
Revenue from principal operations*	5	33,838,213	32,559,735
Other operating income	6	3,815,350	3,204,859
Purchased consumables and services*	7	-17,781,304	-17,212,774
Employee benefit costs*	8	-12,797,271	-13,587,371
Depreciation and amortisation*	9	-5,673,463	-5,605,418
Other operating losses, net*	10	-403,379	-314,419
Profit (loss) before interest and tax*		**998,146**	**-955,388**
Financial expenses*	11	-716,084	-484,054
Other gains (losses), net *	12	-58,029	315,270
Share of income of joint ventures and associates		15,065	4,350
Profit (loss) before tax*		**239,098**	**-1,119,822**
Income tax expense*	13	-143,682	52,069
Profit (loss) for the period from continuing operations*		**95,416**	**-1,067,753**
DISCONTINUED OPERATIONS			
Profit from discontinued operations*	15	395,781	87,069
Profit (loss) for the year		**491,197**	**-980,684**
Attributable to equity holders of the parent company*		465,611	-982,553
Attributable to non-controlling interests		25,586	1,869

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

CZK thousand

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Profit (loss) for the year*	**491,197**	-980,684
Foreign exchange rate gains or losses from the transfer of foreign branches	501	0
Cash flow hedging	54,591	660,477
Relating income tax	-12,230	-107,230
Other comprehensive income for the year, net of tax	**42,862**	**553,247**
Total comprehensive income (loss) for the year*	**534,059**	**-427,437**
Attributable to equity holders of the parent company *	508,473	-429,306
Attributable to non-controlling interests	25,586	1,869

* Restated figures for the year ended 31 December 2010, refer to Note 1.6.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(CZK thousand)

	Share capital	Reserve and other funds	Retained earnings	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
Original balance at 1 Jan 2010	**20,000,000**	**16,008,086**	**5,428,568**	**41,436,654**	**1,294,634**	**42,731,288**
Correction of an error	0	0	-82,523	-82,523	0	-82,523
Restated balance at 1 Jan 2010*	**20,000,000**	**16,008,086**	**5,346,045**	**41,354,131**	**1,294,634**	**42,648,765**
Profit (loss) for the year	0	0	-941,916	-941,916	1,869	-940,047
Adjustment of the loss for the period	0	0	-40,637	-40,637	0	-40,637
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	1,006
Sale of TSS	0	0	0	0	-456,422	-456,422
Original balance at 31 Dec 2010	**20,000,000**	**16,567,630**	**4,481,361**	**41,048,991**	**840,081**	**41,889,072**
Correction of an error	0	0	-123,160	-123,160	0	-123,160
Restated balance at 31 Dec 2010*	**20,000,000**	**16,567,630**	**4,358,201**	**40,925,831**	**840,081**	**41,765,912**
Profit for the year	0	0	465,611	465,611	25,586	491,197
Other comprehensive income for the year, net of tax	0	42,862	0	42,862	0	42,862
Allocation to the reserve fund	0	5,838	-5,838	0	0	0
Paid dividends	0	0	0	0	-6,602	-6,602
Other	0	72	0	72	7,784	7,856
Balance at 31 Dec 2011	**20,000,000**	**16,616,402**	**4,817,974**	**41,434,376**	**866,849**	**42,301,225**

* Restated as of 1 January 2010 and 31 December 2010 and the figures for the year ended 31 December 2010, refer to Note 1.6.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year before tax*	634,879	-1,032,753
Dividend income	-7,240	-37,351
Financial expenses*	716,084	491,203
Profit from the sale and disposal of non-current assets	-1,116,832	-520,930
Depreciation and amortisation of non-current assets*	5,673,463	5,605,418
Impairment of non-current assets	-135,046	-212,826
Impairment of trade receivables	46,833	27,025
Foreign exchange rate gains (losses)	160,815	-343,947
Other*	-26,417	-12,971
Cash flow from operating activities before changes in working capital	**5,946,539**	**3,962,868**
Decrease (increase) in trade receivables	-40,861	262,311
Decrease (increase) in inventories	133,003	-31,118
Decrease (increase) in other assets	-408,406	-248,719
Increase (decrease) in trade payables	-1,191,961	-126,766
Increase (decrease) in provisions	141,567	440,111
Increase (decrease) in other payables	-758,990	-544,381
Total changes in working capital	**-2,125,648**	**-248,562**
Cash flows from operating activities	**3,820,891**	**3,714,306**
Interest paid	-397,146	-352,480
Income tax paid	29,674	-76,452
Net cash flows from operating activities	**3,453,419**	**3,285,374**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment**	-8,418,544	-10,068,446
Proceeds from disposal of property, plant and equipment	856,223	1,460,029
Payments for investment property	-14,965	-86,408
Net cash flows on disposal of a subsidiary	0	600,400
Net cash flows from the sale of a business part	179,940	0
Costs of acquisition of intangible assets	-169,228	-212,420
Received interest	12,206	15,189
Received dividends	7,240	37,351
Net cash flows used in investment activities**	**-7,547,128**	**-8,254,305**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans and borrowings**	11,084,776	6,237,186
Repayments of loans and borrowings	-5,165,611	-2,882,190
Dividends paid	-6,602	0
Net cash flows from financing activities**	**5,912,563**	**3,354,996**
Net increase in cash and cash equivalents	**1,818,854**	**-1,613,935**
Cash and cash equivalents at the beginning of the reporting period	719,461	2,333,396
Cash and cash equivalents at the end of the reporting period	**2,538,315**	**719,461**

* Restated figures for the year ended 31 December 2010, refer to Note 1.6.
** Restated figures for the year ended 31 December 2010, refer to Note 25.1.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 'Parent 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 Parent Company was recorded in the Register of Companies.

The sole shareholder of the Parent 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 company is the Parent Company of the České dráhy Group (the 'Group'). The consolidated financial statements have been prepared as of and for the year ended 31 December 2011. The reporting period is the calendar year, i.e. from 1 January 2011 to 31 December 2011.

1.2 PRINCIPAL OPERATIONS

The Group has been principally engaged in operating railway passenger transportation. Other activities of the Group predominantly include the administration of immovable assets (railway station buildings and other). In addition, the Group is engaged in other activities relating to its principal business activities.

The assets comprising the railway routes are in the ownership of the State, not the Group. The right of management of these assets rests with SŽDC. SŽDC secures the operability and 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, 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 Dec 2011:

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

On 21 April 2011, Radek Šmerda resigned from the position of Chairman of the Steering Committee. Through its Resolution No. 318 dated 27 April 2011, the Government of the Czech Republic appointed Ivo Vykydal as Chairman of the Steering Committee. On 31 January 2012, the position of the member of the Steering Committee, Petr Polák, expired.

Board of Directors	
Chairman	Petr Žaluda
1st Vice Chairman	Vladimír Bail
Member	Michal Nebeský
Member	Jiří Kolář
Member	Ctirad Nečas

At its meeting on 9 November 2011, the Supervisory Board recalled Milan Matzenauer and Antonín Blažek from their positions of members of the Board of Directors with immediate effect. On the same date, the Supervisory Board appointed Vladimír Bail as the first Vice Chairman of the Board of Directors and Ctirad Nečas as a member of the Board of Directors with immediate effect.

Supervisory Board	
Chairman	Lukáš Hampl
Member	Daniel Bartek
Member	Michael Hrbata
Member	Antonín Leitgeb
Member	Miroslav Nádvorník
Member	Jaroslav Pejša
Member	Martin Riegl
Member	Ivo Toman
Member	Vladislav Vokoun

At its meeting on 28 April 2011, the Supervisory Board discussed the resignation of Radek Šmerda and discontinued his membership in the Supervisory Board through Resolution No. 1415 dated 28 April 2011. The term of office of Jan Bittner expired on 4 May 2011 in accordance with the Articles of Association of the Company. Jaroslav Pejša was appointed a member of the Supervisory Board in the election held on 26 April to 29 April 2011. His function originated on 5 May 2011. At its meeting held on 19 August 2011, the Steering Committee recalled Zdeněk Prosek from the position of a member of the Supervisory Board with immediate effect and appointed Ivo Toman and Martin Riegl as members of the Supervisory Board with immediate effect. At its meeting held on 7 October 2011, the Steering Committee recalled Jaroslav Palas from the position of a member of the Supervisory Board and appointed Daniel Bartek a member of the Supervisory Board with effect from 8 October 2011.

Through its Resolution No. 1495, the Supervisory Board established the Remuneration Committee of České dráhy, acting as a sub-committee of the Supervisory Board, on 8 September 2011.

Remuneration Committee	
Chairman	Ivo Toman
Member	Miroslav Nádvorník
Member	Martin Riegl

Composition of the Audit Committee as of 31 December 2011:

Audit Committee	
Chairman	Miroslav Zámečník
Member	Michael Hrbata
Member	Zdeněk Prosek

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. The composition of the Risk Management Committee as of 31 December 2011:

Risk Management Committee	
Chairman	Petr Vohralík
Member	Antonín Blažek
Member	Jaroslav Král
Member	Michal Nebeský

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.**	Ostrava, Přívoz, Na Valše 676/18	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
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control
ČDT - Informační Systémy, a.s.	Prague 3, Pernerova 2819/2a	24829871	59.31	Control
CD Generalvertretung GmbH	Germany –Frankfurt am Main, Kaiserstrasse 60	DE 14191687	100	Control
CD - Generalvertretung Wien GmbH	Austria – Vienna, Rotenturmstraße 22/24	FN 291407s	100	Control
Koleje Czeskie Sp. z o.o.	Poland-Warsaw Ul. Grzybowska nr. 4, lok. 3	140769114	100	Control
Generálne zastúpenie ČD Cargo, s.r.o.	Slovakia – Bratislava Prievozská 4/B	44349793	100	Control
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37	27906931	56	Control
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	27244164	51***	Joint control
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	28209915	51***	Joint control
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	27892646	51***	Joint control
JLV, a. s.	Prague 4, Chodovská 3/228,	45272298	38.79	Significant
RAILLEX, a.s.	Prague 5, Trnkovo náměstí 3, čp. 1112	27560589	50	Significant
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6	45270589	30	Significant
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9	60793171	20	Significant

* 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.

*** In accordance with the Articles of Association of these entities, it is necessary to have at least 52% of all votes to adopt significant resolutions.

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
ČDT - Informační Systémy, a.s.	Provision of telecommunication services, software and advisory
CD Generalvertretung GmbH	Business representation of ČD Cargo for Germany
CD - Generalvertretung Wien GmbH	Business representation of ČD Cargo for Austria, Italy, partially Hungary, Switzerland and former Yugoslavia
Koleje Czeskie Sp. z o.o.	Business representation for Poland, Lithuania, Latvia and Estonia
Generálne zastúpenie ČD Cargo, s.r.o.	Business representation of ČD Cargo for Slovakia
ČD Logistics, a.s.	Storage and handling of material
Smíchov Station Development, a. s.	Design, renovations, modernisation and development in the Smíchovské train station locality
Žižkov Station Development, a. s.	Design, renovations, modernisation and development in the Žižkov train station locality
Centrum Holešovice, a. s.	Design, renovations, modernisation and development in the Holešovice train station locality
JLV, a. s.	Provision of accommodation and catering services
RAILLEX, a.s.	Handling of cargo and technical services in transportation
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles
Ostravská dopravní společnost, a.s.	Operations of railway transportation and lease of locomotives

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

1.5.2 Changes in the Composition of the Group

On 1 April 2011, ČDT – Informační Systémy, a.s. with its registered office at Pernerova 2819/2a, Prague 3, was formed. Its founder and the sole shareholder is ČD-Telematika, a.s. The principal activities of this entity include the provision of IT services.

Investments in subsidiaries (CD Generalvertretung GmbH, CD - Generalvertretung Wien GmbH, Koleje Czeskie Sp. z o.o., Generálne zastúpenie ČD Cargo, s.r.o., ČD Logistics, a.s.), associates (RAILLEX, a.s., BOHEMIAKOMBI, spol. s r.o., Ostravská dopravní společnost, a.s.) and joint ventures (Smíchov Station Development, a. s., Žižkov Station Development, a. s., Centrum Holešovice, a. s.) were treated as immaterial in the prior period. In the consolidated financial statements for the year ended 31 December 2010, they were reported as other financial assets available for sale. In the consolidated financial statements for the year ended 31 December 2011, they are included in the consolidation group.

1.6 RESTATEMENT OF COMPARATIVE INFORMATION FOR PRIOR PERIODS

1.6.1 Discounting of Long-Term Payables

In the financial statements as of 31 December 2011, the Group changed the policy of accounting for long-term financial payables and other payables with the objective of making the values presented in the financial statements more accurate. For this reason, the comparative figures as of 31 December 2010 and 1 January 2010 in the financial statements for the year ended 31 December 2011 were restated for the discount of long-term supplier loans arising from the acquisition of non-current assets and the discount of long-term prepayments received for the lease of railway vehicles.

The remeasurement of inspection repairs acquired in the form of supplier loans using the amortised costs technique that have to be reported as a financial liability in accordance with the requirements of IFRS (specifically in accordance with IAS 39 – Financial Instruments) has an impact on the decrease in the gross value of assets against the decrease in the value of the long-term payable and decrease in the value of equity. The reduction in the equity is due to the decrease in the unallocated profit, the decrease in the depreciation relating to the inspection repairs and increase in financial expenses (interest) in the form of interest calculated using the effective interest rate method, the value of which is reported in the relevant income statement lines (see below).

In addition to the above negative effect of the discount of long-term payables, the income statement for 2010 is also impacted by the discount of long-term prepayments received for the lease of railway vehicles, an increase in financial expenses due to the interest, calculated using the effective interest rate method, and a concurrent increase in the income from principal activities in the same amount.

AMOUNTS OF CORRECTIONS REPORTED IN THE STATEMENT OF FINANCIAL POSITION

(CZK thousand)

	31 Dec 2010	1 Jan 2010	
Property, plant and equipment	-307,678	-249,541	Decrease in the net value of vehicles
Deferred tax asset	5,441	19,358	Increase in the deferred tax asset
Total assets	**-302,237**	**-230,183**	
Unallocated profit	-123,160	-82,523	Decrease in equity
Deferred tax liability	-23,444	0	Decrease in the deferred tax liability
Other financial payables (long-term)	-155,631	-147,660	Discount of long-term financial payables
Other payables (long-term)	-6,624	-16,836	Reclassification of long-term prepayments
Other payables (short-term)	6,622	16,836	Reclassification of short-term prepayments
Total liabilities	**-302,237**	**-230,183**	

AMOUNTS OF CORRECTIONS REPORTED IN THE INCOME STATEMENT

(CZK thousand)

	2010	
Revenues from principal activities	10,212	Effect of the discount of long-term prepayments
Depreciation and amortisation	71,906	De-recognition of depreciation
Financial expenses	-132,284	Discount of long-term financial payables and long-term prepayments
Income taxation	9,529	Effect on the deferred tax
Profit for the period	**-40,637**	

1.6.2 Discontinued Operations

As required by IFRS 5, the Group changed the reporting of comparative information in the income statement. The following table shows the transfer of items in the result of operations in the Operations Management segment for 2010 to discontinued operations:

(CZK thousand)

	2010
Revenues from principal activities	-5,246,000
Other operating income	0
Purchased consumables and services	257,700
Costs of employee benefits	4,753,877
Depreciation and amortisation	0
Other operating losses	310,005
Profit (loss) before interest and tax	**75,582**
Financial expenses	7,149
Other profits	-71,319
Profit (loss) before tax	**11,412**
Income tax	0
Profit (loss) for the period from continuing operations	**11,412**
DISCONTINUED OPERATIONS	
Profit from discontinued operations	-11,412
Profit (loss) for the period	**0**

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

Each entity in the Group determines its functional currency according to the environment in which it operates. Given the economic substance of transactions and the environment in which the Group operates, the functional and presentation currency used in the consolidated financial statements 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.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into CZK using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

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. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

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

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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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 JOINT VENTURES AND ASSOCIATES

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

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 joint ventures and 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 a joint venture or associate of the Group, profits and losses arising from the transactions with the joint venture or 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.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, 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 20 percent allowances against receivables that are past due by greater than six months, full allowances against receivables that are past due by greater than twelve months and their value does not exceed CZK 30 thousand 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 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 ENDED 31 DECEMBER 2011

During the year ended 31 December 2011, the following standards, revised standards and interpretations became effective:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
– Limited Exemption from Disclosure Requirements of IFRS 7	1 July 2010
– Limited Exemption from Requirements of IFRS 9	1 July 2010
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
IAS 24 – Related Party Disclosures	1 January 2011
IAS 32 – Classification of Rights Issues	1 February 2010
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 2011

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

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').

3.2 STANDARDS AND INTERPRETATIONS ADOPTED IN ADVANCE OF THEIR EFFECTIVE DATES

The Group adopted no standards or interpretations before their effective dates.

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	
– 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 2013
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2015
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2015
IFRS 10 – Consolidated Financial Statements	1 January 2013
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits	1 January 2013
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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, except for the detailed presentation under IFRS 12 and IAS 1.

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 2013
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2015
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2015
IFRS 10 – Consolidated Financial Statements	1 January 2013
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits	1 January 2013
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IAS 32 – Offsetting of Financial Assets and Financial Liabilities	1 January 2014
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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.

4.7 PROVISIONS FOR LEGAL DISPUTES AND BUSINESS RISKS

The Group is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Group creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates.

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 thousand)

	2011	2010
Revenue from passenger transportation - fare	6,838,390	6,603,932
– Intrastate passenger transportation	*5,031,938*	*4,786,155*
– International passenger transportation	*1,806,452*	*1,817,777*
Revenue from passenger transportation - payments from public service orderers	12,257,504	12,111,113
– Payment from the state budget	*4,081,091*	*4,075,037*
– Payment from the regional budget	*8,176,413*	*8,036,076*
Revenue from freight transportation	12,981,142	11,846,562
Other revenue from principal operations	1,761,177	1,998,128
Total revenue from principal operations – continuing operations	**33,838,213**	**32,559,735**

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 thousand)

	2011	2010
Gain from disposal of property, plant and equipment and investment property	695,126	397,685
Gain from the sale of inventory	17,371	3,046
Sales of other services	1,844,377	1,567,727
Rental income	590,853	598,771
Compensations for deficits and damage	92,277	165,320
Gain on material	59,841	54,080
Other subsidies	24,310	9,326
Other	491,195	408,904
Total other operating income – continuing operations	**3,815,350**	**3,204,859**

"Other" includes a receivable from Škoda Transportation, a.s. arising from the contractual sanctions for the delay in supplies of the 380 series locomotive. Negotiations regarding adequate compensation by the supplier have not yet been completed.

7 PURCHASED CONSUMABLES AND SERVICES

(CZK thousand)

	2011	2010
Traction costs	-4,534,476	-4,482,712
– *Traction fuel (diesel)*	-1,931,048	-1,926,808
– *Traction electricity*	-2,603,428	-2,555,904
Payment for the use of railway route	-4,023,015	-3,999,292
Other purchased consumables and services	-9,223,813	-8,730,770
– *Consumed material*	-1,515,483	-1,487,377
– *Consumed other energy*	-757,404	-816,075
– *Consumed fuel*	-92,497	-84,203
– *Repairs and maintenance*	-653,434	-772,427
– *Travel costs*	-169,724	-170,441
– *Telecommunication, data and postal services*	-316,590	-324,567
– *Other rental*	-245,701	-198,174
– *Rental for rail vehicles*	-1,183,500	-1,283,125
– *Transportation charges*	-1,371,082	-666,348
– *Services of dining and sleeping carriages*	-104,850	-127,929
– *Services associated with the use of buildings*	-304,046	-284,782
– *Operational cleaning of rail vehicles*	-441,239	-420,373
– *Border area services*	-387,246	-443,383
– *Advertising and promotion costs*	-221,931	-352,201
– *Other services*	-1,459,086	-1,299,365
Total purchased consumables and services – continuing operations	**-17,781,304**	**-17,212,774**

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

8 EMPLOYEE BENEFIT COSTS

(CZK thousand)

	2011	2010
Payroll costs	-8,938,857	-9,201,632
Severance pay	-119,933	-488,414
Statutory social security and health insurance	-3,060,442	-3,193,457
Benefits resulting from the collective agreement	-119,609	-156,267
Other social costs	-517,496	-524,196
Other employee benefit costs	-40,934	-23,405
Total employees benefit costs – continuing operations	**-12,797,271**	**-13,587,371**

9 DEPRECIATION AND AMORTISATION

(CZK thousand)

	2011	2010
Depreciation of property, plant and equipment	-5,390,275	-5,203,646
Depreciation of investment property	-74,317	-68,764
Amortisation of intangible assets	-208,871	-333,008
Total depreciation and amortisation – continuing operations	**-5,673,463**	**-5,605,418**

10 OTHER OPERATING LOSSES

(CZK thousand)

	2011	2010
Change in provisions	-243,048	-238,911
Reversal of losses from impaired receivables	-15,634	11,115
Reversal of losses from impaired property, plant and equipment and property investments	135,046	212,364
Reversal of the write-down (write-down) of inventories to their net realisable value	-2,677	17,689
Taxes and fees	-55,455	-53,905
Other operating expenses	-221,611	-262,771
Total other operating losses – continuing operations	**-403,379**	**-314,419**

11 FINANCIAL EXPENSES

(CZK thousand)

	2011	2010
Interest on bank overdraft accounts and loans	-22,187	-24,508
Interest on the loan from ČSOB and loans from Eurofima	-61,554	-62,708
Interest on issued bonds	-183,726	-105,573
Interest on finance lease payables	-246,109	-189,289
Other interest	-331,503	-221,973
Less: amounts capitalised as part of the costs of an eligible asset	139,272	137,580
Unwinding of the discount of provisions	-10,277	-13,759
Other financial expenses	0	-3,824
Total financial expenses – continuing operations	**-716,084**	**-484,054**

12 OTHER GAINS (LOSSES)

(CZK thousand)

	2011	2010
Net foreign exchange gains (losses)	-104,448	247,485
Received dividends	7,240	37,351
Received interest	13,740	15,189
Gains from current financial assets	20,215	2,880
Banking fees	-24,259	-21,952
Actuarial gains (losses)	-13,184	45,612
Loss from derivative transactions	-260	-3,179
Other	42,927	-8,116
Total other gains (losses) – continuing operations	**-58,029**	**315,270**

13 INCOME TAXATION

13.1 INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK thousand)

	2011	2010
Current income tax for the period reported in profit or loss	-57,916	-17,824
Deferred tax recognised in the income statement	-85,991	68,732
Other*	225	1,161
Total tax charge relating to continuing operations	**-143,682**	**52,069**

* 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 thousand)

	2011	2010
Profit (loss) from continuing operations before tax	239,098	-1,119,822
Income tax calculated using the statutory rate of 19%	-45,429	212,766
Effect of the unrecognised deferred tax asset	11,763	27,606
Other*	-110,016	-188,303
Income tax reported in profit or loss	**-143,682**	**52,069**

* The effect of permanently non-tax expenses and income, 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 thousand)

	2011	2010
Remeasurement of financial instruments recognised as cash flow hedging	-12,230	-107,230
Total income tax recognised in other comprehensive income	**-12,230**	**-107,230**

13.3 DEFERRED TAX

(CZK thousand)

	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance at 1 Jan 2010 – calculated	**1,451,060**	**-1,548,349**	**173,131**	**-19,511**	**22,220**	**135,466**	**49,324**	**263,341**
Balance at 1 Jan 2010 - recognised	**0**	**-212,564**	**27,734**	**-32,437**	**7,599**	**135,466**	**47,002**	**-27,200**
Deferred tax recognised in profit or loss:	120,362	-39,284	53,279	-56,625	-1,549	-240	-7,211	68,732
– of which current changes in the deferred tax	*-211,080*	*271,687*	*40,818*	*-35,547*	*-7,673*	*-240*	*-16,839*	*41,126*
*– of which impairment**	*331,442*	*-310,971*	*12,461*	*-21,078*	*6,124*	*0*	*9,628*	*27,606*
Deferred tax recognised 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	1,524	-3,933
Balance at 31 Dec 2010 – calculated	**1,239,980**	**-1,276,662**	**208,492**	**-55,058**	**14,547**	**17,261**	**34,009**	**182,569**
Balance at 31 Dec 2010 – recognised	**120,362**	**-251,848**	**75,556**	**-89,062**	**6,050**	**27,996**	**41,315**	**-69,631**
– of which liability	*120,362*	*-241,911*	*1,575*	*358*	*348*	*0*	*44,196*	*-75,072*
– of which asset	*0*	*-9,937*	*73,981*	*-89,420*	*5,702*	*27,996*	*-2,881*	*5,441*
Deferred tax recognised in profit or loss:	-99,645	1,509	72,070	-51,754	-442	-7,632	-97	-85,991
– of which current changes in the deferred tax	*-434,226*	*352,503*	*59,086*	*-89,281*	*-1,254*	*-7,632*	*23,050*	*-97,754*
*– of which impairment**	*334,581*	*-350,994*	*12,984*	*37,527*	*812*	*0*	*-23,147*	*11,763*
Deferred tax recognised in other comprehensive income	0	0	0	0	0	-12,230	0	-12,230
– of which current changes in the deferred tax	*0*	*0*	*0*	*0*	*0*	*-17,075*	*0*	*-17,075*
*– of which impairment**	*0*	*0*	*0*	*0*	*0*	*4,845*	*0*	*4,845*
Impacts of the change in the consolidation group	0	-9	0	0	0	0	0	-9
Balance at 31 Dec 2011 – calculated	**805,754**	**-924,168**	**267,578**	**-144,339**	**13,293**	**-7,446**	**57,059**	**67,731**
Balance at 31 Dec 2011 – recognised	**20,717**	**-250,348**	**147,626**	**-140,816**	**5,608**	**8,134**	**41,218**	**-167,861**
– of which liability	*20,717*	*-250,348*	*147,626*	*-140,816*	*5,608*	*8,134*	*41,218*	*-167,861*
– 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 2011 taxation period, the Parent Company records tax losses for the 2007 and 2009 taxation periods in the aggregate amount of CZK 3,989,410 thousand. Tax losses can be carried forward for five taxation periods subsequent to the period in which the relevant loss was assessed, ie between 2012 and 2015.

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 provided this activity for the operator of the railway route – SŽDC before 31 August 2011, 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)

2011	Passenger transportation	Management of operations	Administration of assets	Freight transportation	Other	Elimination and reconciliation°	Total
Revenue from principal operations							
Revenue from passenger transportation	6,844	0	0	0	0	-6	6,838
Revenue from securing railway routes	0	3,267	0	0	0	-3,267	0
Payments from orderers	12,257	0	0	0	0	1	12,258
Other	79	8	1	14,378	1,486	-1,210	14,742
	19,180	**3,275**	**1**	**14,378**	**1,486**	**-4,482**	**33,838**
Purchased consumables and services							
Traction costs	-2,781	0	0	-1,836	0	83	-4,534
Payment for the use of the railway route	-1,636	0	0	-2,343	0	-44	-4,023
Other purchased consumables and services	-5,851	-183	-721	-4,102	-4,042	5,675	-9,224
	-10,268	**-183**	**-721**	**-8,281**	**-4,042**	**5,714**	**-17,781**
Staff costs							
Payroll costs	-4,961	-2,048	-191	-3,169	-1,111	2,421	-9,059
Social security and health insurance	-1,634	-683	-64	-1,052	-346	719	-3,060
Statutory social costs	-31	-22	-2	-194	-37	-231	-517
Statutory social costs – benefits arising from the collective agreement	-237	-100	-7	-16	-29	228	-161
	-6,863	**-2,853**	**-264**	**-4,431**	**-1,523**	**3,137**	**-12,797**
Other operating income and expenses	852	-21	1,446	-348	3,505	-2,022	3,412
Intracompany income and expenses	-273	-18	317	0	-26	0	0
Overhead costs – operating	-894	-175	-60	0	1,122	7	0
Depreciation and amortisation	-1,854	-32	-230	-1,218	-323	-2,016	-5,673
Other income and expenses	-444	266	1	-172	11	-566	-904
Overhead costs – financial and other	-19	-3	-2	0	23	1	0
Profit (loss) for the period from continuing operations	**-583**	**256**	**488**	**-72**	**233**	**-227**	**95**
Profit for the period from discontinued operations	0	0	0	0	0	396	396
Profit (loss) for the period	**-583**	**256**	**488**	**-72**	**233**	**169**	**491**
Profit attributable to non-controlling interests	0	0	0	0	0	25	25
Profit (loss) attributable to owners of the parent company	-583	256	488	-72	233	144	466

° The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS. This principally involves the reclassification of the profit or loss of the Management of Operations segment into discontinued operations (refer to Note 15).

(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	6,628	0	0	0	0	-24	6,604
Revenue from securing railway routes	0	5,194	0	0	0	-5,194	0
Payments from orderers	12,111	0	0	0	0	0	12,111
Other	119	52	3	14,098	6	-433	13,845
	18,858	**5,246**	**3**	**14,098**	**6**	**- 5,651**	**32,560**
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	4,965	-8,731
	-10,234	**-278**	**-689**	**-8,491**	**-2,497**	**4,976**	**-17,213**
Staff costs							
Payroll costs	-5,347	-3,379	-241	-3,357	-1,274	3,908	-9 690
Social security and health insurance	-1,712	-1,091	-73	-1,082	-398	1,163	-3 193
Statutory social costs	-35	-47	-2	-201	-41	-198	-524
Statutory social costs – benefits arising from the collective agreement	-232	-149	-7	-8	-25	241	-180
	-7,326	**-4,666**	**-323**	**-4,648**	**-1,738**	**5,114**	**-13,587**
Other operating income and expenses	1,002	-28	1,088	27	3,196	-2,395	2 890
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	-1,692	-34	-220	-1,111	-416	-2,132	-5,605
Other income and expenses	288	-4	6	-302	278	-379	-113
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**	**-467**	**-1,068**
Profit (loss) for the period from discontinued operations	0	0	0	0	307	-220	87
Profit (loss) for the period	**-8**	**0**	**17**	**-427**	**124**	**-687**	**-981**
Profit 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	-689	-983

* The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS. This principally involves the reclassification of the profit or loss of the Management of Operations segment into discontinued operations (refer to Note 15).

** In 2011, the Parent Company changed the methodology of segment internal reporting. For this reason, the comparative information for 2010 was subject to reclassifications relating to certain items of income and expenses in the 'Passenger transportation' segment.

14.3 INFORMATION ON PRINCIPAL CUSTOMERS

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 Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

By adopting Act No. 194/2010 Coll., on Public Services in Passenger Transportation and Changes in Other Acts, the Czech Republic has harmonised its public transport legislation with EU laws. The Parent Company has concluded contracts for the public service commitment for the period of 10 years and more which are governed by the legal regulations before the adoption of the Act referred to above. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of 10 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 became effective.

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.

As of the balance sheet date, amendments to the major part of the ten-year contracts were concluded. In several cases, there are still discussions regarding comments on partial provisions rather than the amendment as a whole. Management of the Parent Company believes that the conclusion of all the amendments is very likely. In the context of the provision of public services in the transportation of passengers, this fact does not constitute any limitations – given the concluded long-term contracts, there is no threat regarding the interruption of their provision or their funding. Prepayments for the settlement of the provable loss are made – in respect of the not-yet-signed amendments for 2012 – in the amount of the prepayments from 2011.

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 Čechofracht, ČEZ, a.s., CARBOSPED, spol. s r.o., MORAVIA STEEL a.s. and NH TRANS SE. Principal foreign customers are A.P. Möller, Express Slovakia "Mezinárodná preprava a.s.", DB Schenker Rail Automotive, BLG Auto Rail GmbH, and principal foreign railway customers are DB Schenker Rail Deutschland AG, Železničná spoločnost´ 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")

The sale of the equity investment in Traťová strojní společnost, a.s. 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 reported by TSS was recognised in discontinued operations in the year ended 31 December 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 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 delivered the activities to SŽDC, the railway operator, as a contractor.

Pursuant to the resolution of the Czech Government, another contract for the sale of the part of business was concluded between the Company and SŽDC as of 1 September 2011. It involves the sale of the Management of Operations. The selling price according to the contract for the sale of the part of business was determined on the basis of the valuation of an expert in the amount of CZK 389,940 thousand. As of 1 September 2011, 9,326 employees were transferred to SŽDC.

15.3 ANALYSIS OF THE RESULT AND CASH FLOWS FROM DISCONTINUED OPERATIONS

The following table shows the profit from discontinued operations. As of 31 December 2010, it is composed of the loss of TSS before the sale date and the gain on its sale, the economic result of the Management of Operations, and the discount from the purchase price upon the transfer of part of the Company's business to SŽDC in 2008. The figures as of 31 December 2011 include the profit or loss of the Management of Operations as of the date of transfer to SŽDC and the gain on its sale.

(CZK thousand)

	2011	Change in presentation 2010 Management of operations	Original presentation 2010 TSS + other	Changed data 2010 Total
Revenue of principal activities	3,275,000	5,246,000	0	5,246,000
Other operating income	0	0	469,533	469,533
Purchased consumables and services	-175,442	-257,700	-242,579	-500,279
Employee benefit costs	-2,901,518	-4,753,877	-174,907	-4,928,784
Depreciation and amortisation	0	0	-66,084	-66,084
Other operating losses	-219,000	-310,005	-8,761	-318,766
Profit (loss) before interest and tax	**-20,960**	**-75,582**	**-22,798**	**-98,380**
Financial expenses	-1,143	-7,149	-268	-7,417
Other gains (losses), net	-3,821	71,319	-3,684	67,635
Profit (loss) before tax	**-25,924**	**-11,412**	**-26,750**	**-38,162**
Income tax expense	0	0	5,457	5,457
Profit (loss) from discontinued operations	**-25,924**	**-11,412**	**-21,293**	**-32,705**
Profit from the sale	**421,705**	**0**	**125,220**	**125,220**
– Received consideration	389,940	0	600,400	600,400
– Sold net assets	31,765	0	-931,602	-931,602
– Non-controlling interest	0	0	456,422	456,422
– Profit before tax	421,705	0	125,220	125,220
– Relevant tax on the profit recognised in expenses	0	0	0	0
Discount from the purchase price upon the transfer of the part of business to SŽDC in 2008	0	0	-5,446	-5,446
Total profit from discontinued operations	**395,781**	**-11,412**	**98,481**	**87,069**

(CZK thousand)

	2011	2010 ŘP	2010 TSS+other	2010 Total
Cash flows from operating activities	23,000	34,000	10,282	44,282
Cash flows from investment activities	172,864	-6,922	582,506	575,584
– Payments for property, plant and equipment	*-7,183*	*-7,099*	*-17,646*	*-24,745*
– Costs of the acquisition of intangible assets	*0*	*0*	*-699*	*-699*
– Proceeds from the sale of property, plant and equipment	*180,047**	*177*	*600,617*	*600,794*
– Received interest	*0*	*0*	*234*	*234*
Cash flows from financing activities	0	0	-11,904	-11,904
Net cash flows from discontinued operations	**195,864**	**27,078**	**580,884**	**607,962**

* The remaining CZK 120,000 thousand from the aggregate selling price of the Management of Operations segment was settled through the offset.

15.4 ASSETS HELD FOR SALE

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Intangible assets	0	0	0
Land	90,000	40,000	30,680
Buildings	127,879	147,768	57,585
Assets relating to TSS	0	0	1,261,455
Total	**217,879**	**187,768**	**1,349,720**

The following table shows the value of the disposal of the net assets of TSS as of 18 August 2010 when the Company lost control over TSS and the decrease in the net assets of the Management of Operations as of the date of sale to SŽDC:

(CZK thousand)

	31 August 2011	18 August 2010
Intangible assets	41,904	3,712
Property, plant and equipment	31,993	783,051
Inventories	65,699	54,515
Trade receivables	1,939	333,053
Cash and cash equivalents	0	59,682
Tax receivables	0	31,272
Other financial assets	0	295
Other assets	126	9,080
Total assets	**141,661**	**1,274,660**

(CZK thousand)

	31 August 2011	18 August 2010
Trade payables	0	145,361
Provisions	173,426	12,373
Short-term bank loans	0	60,000
Tax payables	0	93,735
Other payables	0	31,589
Liabilities related to assets held for sale	**173,426**	**343,058**
Net assets	**-31,765**	**931,602**

16 PROPERTY, PLANT AND EQUIPMENT

(CZK thousand)

Cost	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Land	6,300,652	29,489	58,928	-41,415	6,229,798	1,722	46,886	-82,846	6,101,788
Structures	17,999,287	496,408	96,428	-348,205	18,051,062	545,928	173,176	-329,759	18,094,055
Individual movable assets	91,784,397	9,786,003	4,734,616	32,718	96,868,502	8,879,417	3,076,751	-141,232	102,529,936
- Machinery, equipment, and furniture and fixtures	*4,431,867*	*216,117*	*205,927*	*-372,541*	*4,069,516*	*202,282*	*223,974*	*48,633*	*4,096,457*
- Vehicles	*79,884,697*	*7,203,041*	*4,351,995*	*312,141*	*83,047,884*	*7,538,791*	*2,548,831*	*40,664*	*88,078,508*
- Vehicles acquired under finance leases	*7,294,776*	*2,360,169*	*151,980*	*0*	*9,502,965*	*1,067,279*	*252,067*	*-90,811*	*10,227,366*
- Other	*173,057*	*6,676*	*24,714*	*93,118*	*248,137*	*71,065*	*51,879*	*-139,718*	*127,605*
Other assets	24,417	25,184	558	-20,282	28,761	26,388	6,609	0	48,540
Assets under construction	1,494,397	7,325,133	3,007	-7,146,718	1,669,805	7,107,416	25,720	-6,600,822	2,150,679
Prepayments	1,941,371	3,709,221	2,391,532	0	3,259,060	2,721,781	1,452,604	0	4,528,237
Total	**119,544,521**	**21,371,438**	**7,285,069**	**-7,523,902**	**126,106,988**	**19,282,652**	**4,781,746**	**-7,154,659**	**133,453,235**

Accumulated depreciation	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Structures	7,953,346	414,158	62,824	-334,083	7,970,597	418,949	111,550	-113,135	8,164,861
Individual movable assets	51,191,668	4,539,065	3,811,358	21,609	51,940,984	4,966,013	2,229,349	-86,778	54,590,870
- Machinery, equipment, and furniture and fixtures	*3,156,378*	*193,184*	*197,600*	*-273,642*	*2,878,320*	*201,161*	*204,164*	*-9,832*	*2,865,485*
- Vehicles	*46,431,732*	*3,827,981*	*3 ,437,946*	*253,702*	*47,075,469*	*4,190,827*	*1,729,696*	*-30,426*	*49,506,174*
- Vehicles acquired under finance leases	*1,457,110*	*499,663*	*151,403*	*0*	*1,805,370*	*562,151*	*251,557*	*-14,629*	*2,101,335*
- Other	*146,448*	*18,237*	*24,409*	*41,549*	*181,825*	*11,874*	*43,932*	*-31,891*	*117,876*
Other assets	18,842	1,181	312	-18,658	1,053	12,461	6,028	0	7,486
Total	**59,163,856**	**4,954,404**	**3,874,494**	**-331,132**	**59,912,634**	**5,397,423**	**2,346,927**	**-199,913**	**62,763,217**

Impairment	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Land	3,814	3,818	3,815	0	3,817	0	0	0	3,817
Structures	59,029	54,877	59,028	0	54,878	0	10,044	0	44,834
Individual movable assets	1,293,209	138,163	332,867	0	1,098,505	102,646	247,680	0	953,471
- Machinery, equipment, and furniture and fixtures	*238*	*171*	*238*	*0*	*171*	*0*	*92*	*0*	*79*
- Vehicles	*1,292,971*	*137,992*	*332,629*	*0*	*1,098,334*	*102,646*	*247,588*	*0*	*953,392*
Other assets	0	0	0	0	0	1,694	0	0	1,694
Prepayments	0	0	0	0	0	3,700	0	0	3,700
Total	**1,356,052**	**196,858**	**395,710**	**0**	**1,157,200**	**108,040**	**257,724**	**0**	**1,007,516**

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 thousand)

Net book value	**Balance at 1 Jan 2010**	**Balance at 31 Dec 2010**	**Balance at 31 Dec 2011**
Land	6,296,838	6,225,981	6,097,971
Buildings	9,986,912	10,025,587	9,884,360
Individual movable assets	39,299,520	43,829,013	46,985,595
- Machinery, equipment, and furniture and fixtures	*1,275,251*	*1,191,025*	*1,230,893*
- Vehicles	*32,159,994*	*34,874,081*	*37,618,942*
- Vehicles acquired under finance leases	*5,837,666*	*7,697,595*	*8,126,031*
- Other	*26,609*	*66,312*	*9,729*
Other assets	5,575	27,708	39,360
Assets under construction	1,494,397	1,669,805	2,150,679
Prepayments	1,941,371	3,259,060	4,524,537
Total	**59,024,613**	**65,037,154**	**69,682,502**

Principal additions from 1 January 2010 to 31 December 2011 include the acquisition of railway vehicles as part of the renewal of the Parent Company's rolling stock. Given the long-term nature of the acquisition of this type of assets, significant balances are reported on the accounts of assets under construction and prepayments. As of 31 December 2011, this primarily involves the purchase of train sets for regional transportation and the 380 series locomotives. The Group is conducting negotiations with the supplier of these locomotives, Škoda Transportation, regarding compensation for delays in the contracted deliveries. The negotiations have not yet been finalised. For this reason, the form and amount of the final settlement cannot be determined. Management of the Company believes that the final settlement will not have any adverse impact on the current value of assets under construction and prepayments.

In 2011, the Group acquired non-current assets financed through government grants in the amount of CZK 850 thousand (2010: 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 2011, 2010 and 1 January 2010 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 719,340 thousand, CZK 960,342 thousand and CZK 1,154,680 thousand, respectively. The impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. The reversal of the impairment between 2009, 2010 and 2011 is due to the development of the railway transportation in the region and improvement in the operating use of the units. The costs and income associated with the Pendolino trains are reported in the Passenger Transportation segment.

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 3,474,975 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 2,420,509 thousand, the Ampz passenger coaches amounted to CZK 445,148 thousand and the Bmz passenger coaches amounted to CZK 609,318 thousand. The pledge was established in favour of EUROFIMA.

16.3 REDUNDANT IMMOVABLE ASSETS

In the property, plant and equipment class, the Group reports assets of CZK 199,408 thousand which are currently not used. These are primarily vacant buildings. The Group anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

17 INVESTMENT PROPERTY

Set out below is an analysis of investment property:

(CZK thousand)

	2011	2010
Balance at the beginning of the year	2,100,440	2,204,523
Additions from subsequent capitalised expenses	41,022	99,823
Disposals	-102,173	-13,416
Disposals, annual depreciation	-74,317	-68,763
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	301,159	448,124
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-35,847	-468,968
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-79,335	-93,979
Change in the value	348	-239
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-56,297	-6,665
Balance at the end of the year	**2,095,000**	**2,100,440**

(CZK thousand)

	Balance at 31 Dec 2011	Balance at 31 Dec 2010	Balance at 1 Jan 2010
Cost	3,227,643	3,153,314	2,893,707
Accumulated depreciation	-1,132,295	-1,049,795	-687,449
Impairment	-348	-3,079	-1,735
Net book value	**2,095,000**	**2,100,440**	**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 2011, 2010 and 1 January 2010 is CZK 4,357,846 thousand, CZK 3,493,240 thousand and CZK 3,168,633 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 thousand)

Cost	Balance at 1 Jan 2010	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2010	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2011
Development costs	103,872	0	7,615	0	96,257	0	0	-350	95,907
Software	1,526,984	198,361	135,618	-81,513	1,508,214	141,642	96,978	-156,186	1,396,692
Valuable rights	472,520	55,077	607	40,738	567,728	62,638	7,148	10,233	633,451
Other assets	2,024	525	1,191	0	1,358	719	0	0	2,077
Assets under construction	183,792	206,845	0	-227,216	163,421	211,526	9,370	-190,955	174,622
Prepayments	0	170	170	0	0	0	0	0	0
Total	**2,289,192**	**460,978**	**145,201**	**-267,991**	**2,336,978**	**416,525**	**113,496**	**-337,258**	**2,302,749**

Accumulated amortisation	Balance at 1 Jan 2010	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2010	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2011
Development costs	102,826	525	7,614	0	95,737	520	0	-350	95,907
Software	1,210,827	242,169	135,106	-24,716	1,293,174	145,205	96,715	-99,848	1,241,816
Valuable rights	244,530	70,566	126	24,716	339,686	59,857	3,352	-19	396,172
Other assets	1,885	150	1,192	0	843	115	0	0	958
Assets under construction	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0
Total	**1,560,068**	**313,410**	**144,038**	**0**	**1,729,440**	**205,697**	**100,067**	**-100,217**	**1,734,853**

Impairment	Balance at 1 Jan 2010	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2010	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2011
Software	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Net book value	Balance at 1 Jan 2010	Balance at 31 Dec 2010	Balance at 31 Dec 2011
Development costs	1,046	520	0
Software	316,157	215,040	154,876
Valuable rights	227,990	228,042	237,279
Other assets	139	515	1,119
Assets under construction	183,792	163,421	174,622
Prepayments	0	0	0
Total	**729,124**	**607,538**	**567,896**

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 used in business activities entitled ARES, In-card, UNIPOK, IS OPT, GSM-R 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, software used in business activities - MAVIS, IS-PRM, IS-ADPV, In-cards, IS-KADR and Projekt 602 software modules.

19 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

(CZK thousand)

Entity		Value of investment at 31 Dec 2011	Ownership percentage at 31 Dec 2011
RAILLEX, a.s.	associate	4,539	50 %
BOHEMIAKOMBI, spol. s r.o.	associate	4,421	30 %
Ostravská dopravní společnost, a.s.	associate	32,905	20 %
JLV, a. s.		117,958	38.79 %
Total – associates		**159,822**	**–**
Smíchov Station Development, a. s.	joint venture	0	51%
Žižkov Station Development, a. s.	joint venture	840	51%
Centrum Holešovice, a. s.	joint venture	378	51%
Total – joint ventures		**1,218**	**–**
Total – investments in joint ventures and associates		**161,040**	**–**

Summary of financial information on associates

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Total assets	850,389	377,882	367,092
Total liabilities	357,957	76,396	69,678
Net assets	492,432	301,486	297,414
Share of the Company in associates' net assets	**159,822**	**116,946**	**115,367**

(CZK thousand)

	2011	2010
Total income	1,542,670	326,951
Profit for the period	52,691	11,214
Share of the Company in associates' profit for the period	**16,400**	**4,350**

Summary of financial information on joint ventures

(CZK thousand)

31 Dec 2011	Total
Total assets	78,737
Total liabilities	85,091
Net assets	-6,354
The Company's share of net assets	**-3,240**

(CZK thousand)

	2011
Total income	6,489
Profit for the period	-2,617
The Company's share of profit	**-1,335**

20 INVENTORIES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Spare parts for machinery and equipment	74,122	75,815	79,089
Spare parts and other components for rail vehicles and locomotives	685,163	739,905	693,673
Other machinery, tools and equipment and their spare parts	161,472	164,901	199,094
Fuels, lubricants and other oil products	25,154	25,116	26,081
Work clothes, work shoes, protective devices	146,715	252,377	235,203
Other	92,971	125,197	117,020
Total cost	**1,185,597**	**1,383,311**	**1,350,160**
Write-down of inventories to their net realisable value	-55,403	-52,731	-70,424
Total net book value	**1,130,194**	**1,330,580**	**1,279,736**

The Parent Company’s inventories are gathered in the Supply Centre in Česká Třebová.

21 TRADE RECEIVABLES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Long-term	6,577	10,098	24,181
Short-term	3,550,338	3,484,872	3,760,040
Total	**3,556,915**	**3,494,970**	**3,784,221**

21.1 AGING OF TRADE RECEIVABLES

(CZK thousand)

	Category	Before due date	1–30 days	Past due date (days) 31–90	91–180	181–365	365 and more	Total past due date	Total
31 Dec 2011	Gross	3,043,494	401,330	69,495	25,600	21,109	152,065	669,599	3,713,093
	Allowances	-1,832	-1,060	-9,846	-6,076	-11,729	-125,635	-154,346	-156,178
	Net	**3,041,662**	**400,270**	**59,649**	**19,524**	**9,380**	**26,430**	**515,253**	**3,556,915**
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**
1 Jan 2010	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**

21.2 MOVEMENTS IN ALLOWANCES FOR DOUBTFUL RECEIVABLES

(CZK thousand)

	2011	2010
Balance at the beginning of the year	141,134	173,614
Recognition of allowances	140,028	309,306
Use of allowances	-124,984	-341,786
Balance at the end of the year	**156,178**	**141,134**

22 OTHER FINANCIAL ASSETS

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Financial assets available for sale	384,934	406,509	376,217
Receivables from finance leases	113,751	120,713	114,149
Hedging derivatives	415,497	42,793	0
Other financial derivatives	2,975	0	0
Other	29,918	56,556	26,177
Total non-current financial assets	**947,075**	**626,571**	**516,543**
Receivables from finance leases	-6,375	-6,658	3,466
Hedging derivatives	44,373	15,497	0
Other financial derivatives	1,262	0	0
Other	231,575	218,718	83,911
Total current financial assets	**270,835**	**227,557**	**87,377**
Total	**1,217,910**	**854,128**	**603,920**

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. In respect of the Prague – Dejvice station, the original contract was discontinued in December 2011, the criteria of finance lease recognition were no longer met as of 31 December 2011. The figures as of 31 December 2011 include only Brno-hlavní nádraží.

(CZK thousand)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2011	31 Dec 2010	1 Jan 2010	31 Dec 2011	31 Dec 2010	1 Jan 2010
Under 1 year	3,861	3,707	13,921	-6,375	-6,658	3,466
From 1 to 5 years	24,376	24,823	14,561	-25,183	-25,137	- 32,551
5 years and more	438,706	456,402	470,331	138,934	145,850	146,700
Total	**466,943**	**484,932**	**498,813**	**107,376**	**114,055**	**117,615**
Less: unrealised financial income	-359,567	-370,877	-381,198	0		
Present value of receivables of minimum lease payments	**107,376**	**114,055**	**117,615**	**107,376**	**114,055**	**117,615**
In the statement of financial position as:						
– Other current financial assets				*-6,375*	*-6,658*	*3,466*
– Other non-current financial assets				*113,751*	*120,713*	*114,149*
Total				**107,376**	**114,055**	**117,615**

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 thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Total non-current assets	**118,326**	**184,529**	**232,827**
Prepayments made	205,119	195,513	205,545
Tax receivables (except for the corporate income tax)	900,554	362,518	308,089
Prepaid expenses	161,472	152,496	120,172
Other	54,459	74,064	102,948
Total current assets	**1,321,604**	**784,591**	**736,754**
Total	**1,439,930**	**969,120**	**969,581**

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 thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Share premium	16,439,605	16,439,605	16,439,853
Statutory reserve fund	189,647	182,030	184,523
Cash flow hedging reserve	-9,172	-51,533	-604,780
Foreign currency translation fund	501	0	0
Other	0	571	1,046
Non-controlling interests	-4,179	-3,043	-12,556
Total	**16,616,402**	**16,567,630**	**16,008,086**

Allocations are made to the statutory reserve fund in accordance with the national legislation.

24.2.1 Cash Flow Hedging Reserve

(CZK thousand)

	2011	2010
Balance at the beginning of the year	-51,533	-604,780
Profit from revaluation	-58,341	264,472
Cost deferral	49,945	9,127
Reclassifications to profit or loss upon settlement	62,987	386,878
Total change in the cash flow hedging reserve	**54,591**	**660,477**
Relating income tax	-12,230	-107,230
Balance at the year-end	**-9,172**	**-51,533**

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 in the income statement lines 'Revenue from principal activities', 'Purchased consumables and services' and 'Financial expenses'.

24.2.2 Foreign Currency Translation Fund

(CZK thousand)

	2011
Balance at the beginning of the year	0
Foreign exchange rate gains or losses arising from translation of foreign operations	501
Tax on the profit relating to profits arising from translation of net assets of foreign operations	0
Balance at the year-end	**501**

Foreign exchange rate gains or losses relating to the translation of the results and net assets of foreign operations of the Group from their functional currencies to the presentation currency of the Group (ie CZK) are reported directly in other comprehensive income and are accumulated in the foreign currency translation fund.

25 LOANS AND BORROWINGS

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Short-term bank loans	304,381	256,798	271,195
Short-term issued bills of exchange	2,556,573	2,877,117	1,013,500
Payables from finance leases	982,619	767,719	668,295
Overdraft accounts	349,709	2,136,140	32,783
Issued bonds	1,993,924	0	0
Other received short-term loans and borrowings	6,865	6 792	0
Total short-term	**6,194,071**	**6,044,566**	**1,985,773**
Payable to EUROFIMA	4,256,948	4,134,850	4,366,672
Issued bonds	9,843,618	1,982,412	1,970,899
Other – received loans and borrowings – long-term	13,723	13,522	17,541
Loan from ČSOB – long-term	528,761	770,392	1,084,780
Payables from finance leases	5,554,352	5,565,909	4,242,098
Total long-term	**20,197,402**	**12,467,085**	**11,681,990**
Total	**26,391,473**	**18,511,651**	**13,667,763**

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 Parent Company received in several tranches a long-term loan from EUROFIMA to finance the purchase of railway vehicles. Interest rate is determined based on the Euribor reference rate. The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2011 and 2010 was CZK 12,259 thousand and CZK 10,255 thousand, respectively. The maturity of the loan is 10 years for each individual tranche.

In December 2012, the bonds with the three-year maturity and fixed coupon of 5% p.a. repayable annually, which the Company issued on 14 December 2009, will mature. 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 has 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 Euribor reference rate plus a usual market mark-up. 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.

On 24 June 2011, the Parent Company issued international bonds with the five-year maturity and fixed coupon of 4.5% p.a. The issue amounted to EUR 300 million and the issue rate was 99.479%. These are bonds listed on the Luxembourg stock exchange. The joint leading managers of the issue were Barclays Capital, Erste Group and Société Générale. The proceeds are intended for the modernisation of the Company's rolling stock.

The subsidiary DPOV Přerov, a. s. obtained a long-term investment loan provided by KB, a. s. Přerov. As of 31 December 2011, CZK 13,523 thousand (2010: CZK 20,315 thousand) was drawn. The loan was collateralised by a Letter of Comfort from the Parent Company.

ČD Cargo, a.s. has an approved bond programme in the maximum amount of CZK 6 billion for 10 years under which it placed to the first issue of five-year bonds with a fixed coupon of 3.183% p.a. for the first three years and 5% p.a. for the remaining two years on 20 June 2011. The issue amounted to CZK 1 billion with the issue rate of 98.025% .

On 21 December 2011, in the second issue, ČD Cargo, a. s. issued five-year bonds in the aggregate amount of CZK 500 million with the issue rate of 99.941 % and the fixed interest yield of 3.8% p. a.

The third issue was placed on 22 December 2011 when ČD Cargo issued four-year bonds with the aggregate nominal value of CZK 500 million, with the issue rate of 97.464 % and a variable interest yield based on the 6M PRIBOR reference rate. The interest on these bonds is paid twice a year.

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 thousand)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2011	31 Dec 2010	1 Jan 2010	31 Dec 2011	31 Dec 2010	1 Jan 2010
Less than 1 year	1,257,765	969,759	850,676	982,619	767,719	668,295
From 1 to 5 years	3,977,568	3,819,478	3,102,410	3,268,771	3,129,026	2,644,994
5 years and more	2,516,608	2,719,499	1,751,924	2,285,581	2,436,883	1,597,104
Total	**7,751,941**	**7,508,736**	**5,705,010**	**6,536,971**	**6,333,628**	**4,910,393**
Less: future finance expenses	-1,214,970	-1,175,109	-794,617			
Present value of minimum lease payments	**6,536,971**	**6,333,627**	**4,910,393**	**6,536,971**	**6,333,628**	**4,910,393**
In the statement of financial position as:						
– short-term loans				*982,619*	*767,719*	*668,295*
– long-term loans				*5,554,352*	*5,565,909*	*4,242,098*
Total				**6,536,971**	**6,333,628**	**4,910,393**

The fair value of finance lease payables approximates their carrying amount.

The acquisition of fixed assets under finance leases is reported as a non-cash transaction in the statement of cash flows. The Company has decided to change the presentation of finance leases in the statement of cash flows included in the financial statements for the year ended 31 December 2011. Finance leases are not presented as a loan provided to purchase tangible assets according to the substance of the transaction but only according to the actual cash flow from financing. The amounts presented in the line 'Payments for property, plant and equipment' and 'Proceeds of loans and borrowings' were decreased by CZK 1,832,765 thousand in the comparative balances for 2010.

26 PROVISIONS

(CZK thousand)

	Balance at 1 Jan 2010	Charge	Use	Balance at 31 Dec 2010	Charge	Use	Balance at 31 Dec 2011
Provision for discounts and refunds	9,752	22,165	9,752	22,165	20,588	22,165	20,588
Provision for rents	10,653	11,223	10,653	11,223	0	3,001	8,222
Provision for legal disputes	35,734	283,199	35,734	283,199	24,233	21,050	286,382
Provision for outstanding vacation days	77,294	75,542	77,294	75,542	68,149	75,543	68,148
Provision for removal of the environmental burden	226,737	0	3,034	223,703	0	150,035	73,668
Provisions for employees benefits	548,781	110,352	164,373	494,760	98,946	238,650	355,056
Provisions for business risks	0	240,000	0	240,000	150,000	0	390,000
Provisions for restructuring	0	0	0	0	110,365	0	110,365
Other provisions	2,267	736	2,266	737	7,041	737	7,041
Total provisions	**911,218**	**743,217**	**303,106**	**1,351,329**	**479,322**	**511,181**	**1,319,470**
– long-term	*573,437*			*537,467*			*221,480*
– short-term	*337,781*			*813,862*			*1,097,990*

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 2.4%, 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.

The provision for the removal of the environmental burden is recognised for the clean-up of the locality in Brodek u Přerova. Following the selection of the contractor, the originally determined budget was decreased to CZK 74,395 thousand; CZK 62,984 thousand is paid from EU subsidies and CZK 727 thousand was already used. A provision was recognised in respect of these aggregate costs in the financial statements for the year ended 31 December 2011; the claim for the subsidy is reported under 'Other non-current assets'. The Parent Company does not recognise provisions for other environmental burdens as it is unable to estimate the scope of these burdens and potential level of its share in their removal.

The provision for legal disputes amounts to CZK 254 million which relates to the fine from the Anti-Monopoly Office from 2007 for the breach of antimonopoly rules in freight transportation.

After having considered all existing legal analyses and reasults of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal diputes and in accordance with the inherent level of prudence, management of ČD Cargo has decided to increase the amount of the non-tax deductible provision by CZK 150,000 thousand to the total amount of CZK 390,000 thousand to cover potential expenses relating to potential risks for business transactions.

27 TRADE PAYABLES

(CZK thousand)

Year	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 2011	Short-term	7,439,039	98,673	43,841	18,755	3,276	2,943	167,488	**7,606,527**
31 Dec 2010	Short-term	7,589,620	479,437	35,527	15,276	6,719	6,938	543,897	**8,133,517**
1 Jan 2010	Short-term	7,731,855	513,877	38,079	6,588	5,978	11,040	575,562	**8,307,417**

Supplier invoices typically mature in 90 days.

28 OTHER FINANCIAL LIABILITIES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Long-term received prepayments	0	0	163,044
Hedging derivatives	75,968	0	376,099
Other financial derivatives	301	0	0
Other long-term liabilities	618,276	1,064,266	1,414,269
Total long-term	**694,545**	**1,064,266**	**1,953,412**
Hedging derivatives	20,238	148,452	386,878
Other financial derivatives	919	0	0
Other	798,441	88,862	712
Total short-term	**819,598**	**237,314**	**387,590**
Total	**1,514,143**	**1,301,580**	**2,341,002**

Other long-term liabilities predominantly include repayments according to repayment schedules, assignment of liabilities and rebilled liabilities. Other short-term liabilities predominantly include short-term portions of supplier loans.

29 OTHER LIABILITIES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Total long-term	**381,498**	**83,333**	**84,424**
Received prepayments	320,070	227,343	241,290
Payables from the transition period (SŽDC-transformation)	34,715	435,865	435,865
Payables to employees	1,145,826	1,613,043	1,595,895
Social security and health insurance payables	355,214	509,414	517,245
Subsidies	2,580	1,104	31,098
Other	1,049,555	1,482,172	1,281,889
Total short-term	**2,907,960**	**4,268,941**	**4,103,282**
Total	**3,289,458**	**4,352,274**	**4,187,706**

Other short-term liabilities predominantly include leases received in advance, tax withheld from employees and other deferred income.

The Group carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

30 RELATED PARTY TRANSACTIONS

30.1 LOANS TO RELATED PARTIES

The Group provided no loans to related parties as of 31 December 2011, 31 December 2010 and 1 January 2010.

30.2 KEY MANAGEMENT MEMBERS COMPENSATION

Directors and other members of key management received the following bonuses in the reporting period:

(CZK thousand)

	2011	2010
Short-term employee benefits	169 621	175 764
Post-employment benefits	0	1 485
Other long-term employees benefits	0	2 137
Total	**169 621**	**179 386**

The members of the Parent Company's statutory and supervisory bodies had the possibility of using reduced fares. Cash bonuses to the members of the Parent Company's statutory and supervisory bodies in the years ended 31 December 2011 and 2010 amounted to CZK 40,933 thousand and CZK 24,466 thousand, 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 2011, the Parent Company secured the servicing of the railway route on behalf of the operator, SŽDC, s.o. before 31 August 2011. The contract for the servicing of railway routes was entered into in the summer of 2008 and was also applicable with its amendments in 2011.

The Group operates the railway route and it pays a fee in the amount of offer prices 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 2011 and 2010 were as follows:

(CZK thousand)

2011	Expenses	Income
Servicing railway routes	55,006	3,266,666
Use of railway route and allocated capacity of the railway route – passenger transportation	1,680,149	0
Use of railway route and allocated capacity of the railway route – freight transportation	2,342,395	0
Consumed traction electricity	649,734	0
Other	205,152	575,511
Total	**4,932,436**	**3,842,177**

(CZK thousand)

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**

Income from securing railway routes is reported under 'Revenue from principal operations' as part of discontinued 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:

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Receivables	267,288	562,057	464,466
Payables	1,097,541	1,530,124	2,177,282
Estimated payables	29,350	27,018	27,003
Estimated receivables	4,673	11,172	8,053

31 CASH AND CASH EQUIVALENTS

For cash flow reporting 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 thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Cash on hand and cash in transit	79,700	55,692	53,390
Cash at bank	2,150,112	433,569	1,080,006
Depository bills of exchange	308,503	230,200	1,200,000
Total	**2,538,315**	**719,461**	**2,333,396**

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 2011, 31 December 2010 and 1 January 2010 amount to CZK 45,933 thousand, CZK 207,139 thousand and CZK 105,161 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 2011 and 2010 amounted to CZK 61,116 thousand and CZK 85,992 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 and movable assets held by the Group with various lease periods.

The revenue that the Group generated from investment property based on the operating leases amounts to CZK 550,535 thousand in 2011 (2010: CZK 569,557 thousand).

Direct operating expenses relating to investment property for the period amounted to CZK 194,844 thousand (2010: CZK 211,573 thousand).

Income from operating leases of movable assets in 2011 amounts to CZK 623,399 thousand (2010: CZK 95,911 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 28,329,303 thousand, of which CZK 10,961,419 thousand relates to supplies contracted for 2012 and CZK 8,943,789 thousand relates to supplies contracted for the following years. The remaining CZK 8,424,095 thousand was paid as of 31 December 2011. A significant portion of the obligations relating to expenses (CZK 27,681,400 thousand) include investments in railway vehicles.

34 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the year ended 31 December 2011, 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 8 December 2012; and

- Plzeň–Most railway track, in respect of the contract entitled "Ordered Transportation between Plzeň and Most", maturity on 8 December 2012, CZK 15 million.

In addition, a bank guarantee of CZK 51,860 thousand was issued with validity from 11 December 2011 to 8 December 2012. This is a guarantee for securing further continuous operations and potential coverage of damages of the orderer, resulting from the Contract for the Public Services in Passenger Railway Transportation in the Public Interest to provide for basic transportation services in part of the Liberec region for specific operations of the Jizera mountains railways ("Jizerskohorská železnice").

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 2011 was CHF 20,800 thousand (CZK 441,376 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 26 February 2012, 26 February 2012 and 28 January 2012, 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 30 June 2012.

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.

In 2011, the Parent Company significantly strengthened its capital structure, primarily through the funds obtained as a result of the first issue of Eurobonds with a five-year maturity. By implementing this transaction, the Parent Company established itself on the Eurobond markets and issues of bonds will be used in the future as one of the principal sources of its long-term funding.

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 thousand)

Financial assets	31 Dec 2011	31 Dec 2010	1 Jan 2010
Cash and bank accounts	964,515	489,261	1,133,396
Derivative instruments in designated hedge accounting relationships	459,870	58,290	0
Other financial derivatives	4,237	0	0
Held-to-maturity investments (term deposits and bills of exchange)	1,573,800	230,200	1,200,000
Loans and receivables	3,925,784	3,884,299	4,011,924
Available-for-sale financial assets	384,934	406,509	376,217
Total	**7,313,140**	**5,068,559**	**6,721,537**

(CZK thousand)

Financial liabilities	31 Dec 2011	31 Dec 2010	1 Jan 2010
Derivative instruments in designated hedge accounting relationships	96,207	118,605	671,543
Other financial derivative instruments	1,219	29,847	91,433
Measured at amortised cost	35,414,717	27,798,296	23,553,206
Total	**35,512,143**	**27,946,748**	**24,316,182**

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 thousand)

Financial assets	2011	2010	Reported in the income statement line
Interest on cash in bank accounts	3,367	4,821	Other gains
Interest on investments held to maturity (term deposits and bills of exchange)	20,215	2,879	Other gains
Dividends from available-for-sale financial assets	7,240	33,563	Other gains
Total	**30,822**	**41,263**	

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 Parent Company, 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, received loans and issued bonds. The Group seeks to maintain the proportion of long-term funding in the foreign currency unhedged against the currency risk at the maximum level of 50%.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the end of the reporting period are as follows:

(CZK thousand)

31 Dec 2011	EUR	USD	Other	Total
Financial assets	3,502,682	33,083	77,919	3,613,684
Financial liabilities	-14,339,600	-2,223	-50,086	-14,391,909
Total	**-10,836,918**	**30,860**	**27,833**	**-10,778,225**

(CZK thousand)

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 thousand)

1 Jan 2010	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**

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 thousand)

	2011	2010
Translation of unhedged items denominated in foreign currencies at the end of the period	425,213	189,225
Change in the fair value of derivatives at the end of the period	-245,518	-2,096
Total impact on the profit for the period	**179,695**	**187,129**
Change in the fair value of derivatives at the end of the period	-57,873	-155,698
Total impact on other comprehensive income	**-57,873**	**-155,698**

35.5.2 Currency Forwards

In line with its principles, the Group enters into currency forwards and options to cover the received payments denominated in foreign currencies.

The table shows outstanding foreign currency forwards and options for the sale of the foreign currency as of:

(CZK thousand)

Sale	Average currency exchange	Foreign currency	Nominal value	Fair value
31 Dec 2011	25.62	EUR	41,561	-6,923
31 Dec 2010	23.83	EUR	147,000	-187,130
1 Jan 2010	23.83	EUR	294,000	-797,406

The table shows outstanding foreign currency forwards and options for the purchase of the foreign currency as of:

(CZK thousand)

Purchase	Average currency exchange	Foreign currency	Nominal value	Fair value
31 Dec 2011	24.93	EUR	1,020	869
	19.05	USD	440	393
31 Dec 2010	–	EUR	0	0
1 Jan 2010	–	EUR	0	0

35.5.3 Cross-currency Interest Rate Swaps

Given the Group's overall strategy in managing the interest rate and currency risks, the risk management policies require the minimisation of the exposure (in respect of the changes in the amount) of cash flows arising from the Group's business activities and the fair values of its foreign currency denominated assets and liabilities. In accordance with these requirements, the Group has entered into a cross-currency interest rate swap which reduces the risk of the change in the future cash flows resulting from the bond funding in EUR and the risk of the change in the fair value of those bonds.

The table shows the terms of contracts for cross-currency interest rate swaps that were opened at the end of the reporting period. The Group had no contracts for cross-currency interest rate swaps as of 31 December 2010 and 1 January 2010:

(CZK thousand)

31 Dec 2011	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK thousand)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK
Less than 1 year	240,000	4.5%	-5,827,715	4.231%	27,265
1 to 5 years	240,000	4.5%	-5,827,715	4.231%	414,331
5 years and more	–	–	–	–	0
Total					**441,596**

The exchanges of payments under the cross-currency interest rate swaps and coupon payments from issued bonds occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

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 long-term external sources of funding 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 thousand)

	2011	2010
Interest from loans and lease with variable rate for the period	-8,109	-6,224
Change in the present value of long-term provisions at the end of the period	27,787	39,003
Change in the fair value of derivatives at the end of the period	66,471	0
Total impact on the profit for the period	**86,149**	**32,779**
Change in the fair value of derivatives at the end of the period	140,041	114,286
Total impact on other comprehensive income	**140,041**	**114,286**

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 1 January 2010, the Group concluded no interest rate swap contracts.

	Average contracted fixed interest rate		Principal		Fair value of assets (liabilities)	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
Less than 1 year	2.43%	2.43%	EUR 60 000 thousand	EUR 60 000 thousand	-8,880	0
	2.69%	–	CZK 1 315 943 thousand	–	-5,355	0
1 to 5 years	2.43%	2.43%	EUR 60 000 thousand	EUR 60 000 thousand	-44,862	17,564
	2.69%	–	CZK 1 224 474 thousand	–	-28,987	0
5 years and more	2.43%	2.43%	EUR 60 000 thousand	EUR 60 000 thousand	342	17,397
	2.69%	–	CZK 330 143 thousand	–	-2,761	0
Total	**–**	**–**	**–**	**–**	**-90,503**	**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.

35.6.3 Interest Rate Options

In 2011, the Group concluded hedging of interest rates in respect of three lease transactions with floating interest rates. The hedging took the form of a collar, in three individual tranches. The hedging will be effective from 2013 to 2019. These are trading derivatives.

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2011	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2010
Less than 1 year	1.13%–3.13%	762,150	0	0
1 to 5 years	1.13%–3.13%	686,457	733	0
5 years and more	1.13%–3.13%	331,369	2,242	0
Total			**2,975**	**0**

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 thousand)

	2011	2010
Costs of oil consumption for the period	-121,392	-158,893
Change in the fair value of derivatives at the end of the period	0	-9,268
Total impact on the profit for the period	**-121,392**	**-168,161**
Change in the fair value of derivatives at the end of the period	10,627	37,167
Total impact on other comprehensive income	**10,627**	**37,167**

35.7.2 Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as of:

(CZK thousand)

Purchase of oil	Hedged range (USD/mt)	Volume of contracts (mt)	Fair value (CZK thousand)
31 Dec 2011	635–820	5,501	18,274
31 Dec 2010	550–820	22,807	61,802
1 Jan 2010	550–700	30,288	34,430

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 Company's short-, medium- and long-term funding and liquidity management requirements. The Parent Company manages its liquidity risk via an established bill-of-exchange programme and agreed overdraft loans and by continuously monitoring forecasted and actual cash flows. In order to minimise the risk of insufficient operating funding, the Parent Company concludes binding lending limits with banks with the minimum period of 12 months.

The Group's short-term liabilities significantly exceed its short-term assets as of 31 December 2011. The reason predominantly 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 further 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 thousand)

31 Dec 2011	Less than 1 month	1–3 months	3 months to 1 year	1 year –5 years	5 years and more	Total
Non-interest bearing	2,999,378	4,137,906	1,265,775	533,937	81,988	9,018,984
Derivatives	1,471	2,760	16,926	73,850	2,419	97,426
Finance lease liabilities	102,109	205,324	950,332	3,977,568	2,516,608	7,751,941
Variable interest rate instruments	390,064	25,978	349,759	4,729,969	777,741	6,273,511
Fixed interest rate instruments	537,196	1,111,299	3,456,081	10,792,471	1,573	15,898,620
Total	**4,030,218**	**5,483,267**	**6,038,873**	**20,107,795**	**3 380,329**	**39,040,482**

(CZK thousand)

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 thousand)

1 Jan 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	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**

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 thousand)

31 Dec 2011	Less than 1 month	1–3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2,546,082	1,323,599	556,997	20,918	385,462	4,833,058
Derivatives	5,339	3,038	37,258	416,230	2,242	464,107
Finance lease assets	3,794	0	67	24,376	438,706	466,943
Fixed interest rate instruments	1,573,800	308,503	0	0	0	1,882,303
Total	**4,129,015**	**1,635,140**	**594,322**	**461,524**	**826,410**	**7,646,411**

(CZK thousand)

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 thousand)

1 Jan 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	3,077,378	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**

35.9.2 Financing Facilities

The Group has access to the below loan facilities:

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Overdraft loan facilities:			
– amount of the loan facility	*3,430,000*	*3,420,000*	*3,180,000*
– amount unused	*3,080,291*	*688,374*	*584,676*
Bills of exchange programme:			
– amount of the loan facility	*6,500,000*	*6,500,000*	*1,500,000*
– amount unused	*3,943,427*	*3,622,883*	*486,500*

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 2011, 31 December 2010 and 1 January 2010 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 thousand)

	Available-for-sale financial assets	Derivatives	Total
Balance at 1 Jan 2010	**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**
Total gains (losses) from revaluation	21,076	394,061	415,137
– in profit or loss	*21,076*	*400,700*	*421,776*
– in other comprehensive income	*0*	*-6,639*	*-6,639*
Purchases	3,920	0	3,920
Sales/settlement	-46,571	62,782	16,211
Balance at 31 Dec 2011	**384,934**	**366,681**	**751,615**

36 POST BALANCE SHEET EVENTS

The Parent Company has put up a tender to select an operator of buffet cars for the following four years.

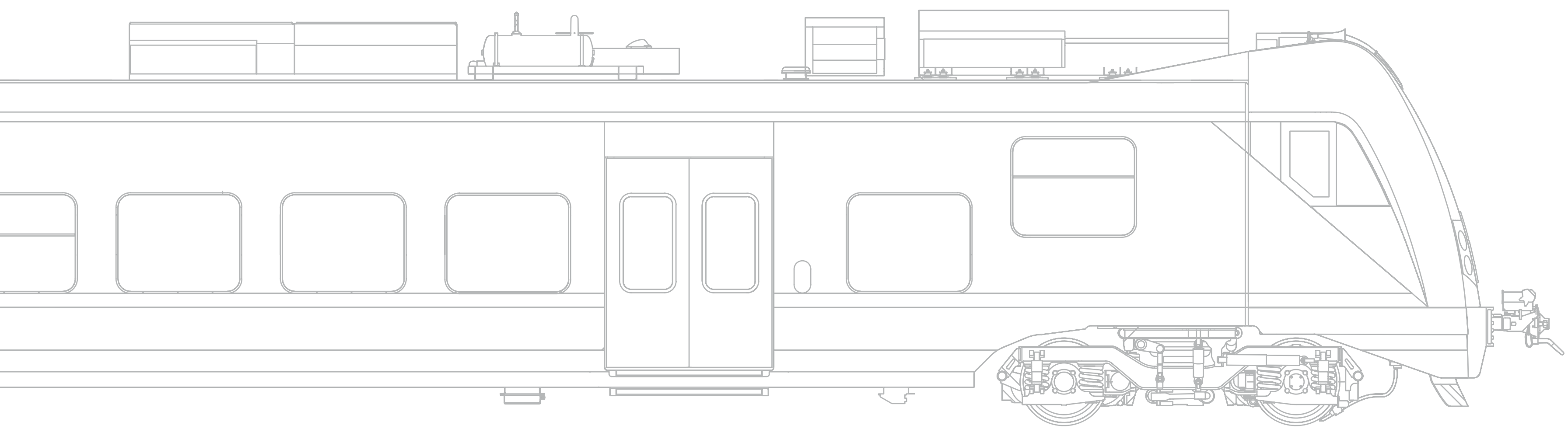
As part of its bond programme, ČD Cargo, a.s. placed two tranches of the third issue of bonds in the total nominal value of CZK 500,000 thousand in January 2012. Both issues were administered by ČSOB, a.s.

In March 2012, Výzkumný Ústav Železniční, a. s. filed an application for the grant for the completion of the renovation of the large testing circuit and construction of the HPZ II. hall including its technology equipment. The amount of the grant will be approximately CZK 50 million.

The Supervisory Boards of České dráhy, a. s. and ČD – Telematika a. s. approved the intention to sell ČDT - Informační Systémy, a.s. As of 29 February 2012, the process of transferring the shares of ČDT - Informační Systémy, a.s. from the original owner, ČD – Telematika a. s., to the acquirer, České

37 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 10 April 2012.



Regio Panter

Produced by Škoda Vagónka Ostrava, 19 units on order

These modern regional train units include an air-conditioning system, which passengers will particularly appreciate on hot summer days. Passengers are informed on the train ride's progress through an audio-visual information system.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 Financial Statements

THESE FINANCIAL STATEMENTS WERE PREPARED ON 10 APRIL 2012

STATUTORY BODY OF THE REPORTING ENTITY

Petr Žaluda
Chairman of the Board of Directors and CEO

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2011

		31 Dec 2011 CZK thousand	31 Dec 2010 CZK thousand	1 Jan 2010 CZK thousand
Property, plant and equipment	16	53,399,330	48,185,530	42,435,867
Investment property	17	2,095,000	2,100,440	2,204,523
Intangible assets	18	347,943	414,706	503,365
Investments in subsidiaries and associates and joint ventures	19	10,821,836	10,819,834	11,125,834
Other financial assets	22	884,782	541,406	480,990
Other assets	23	65,614	173,594	194,402
Total non-current assets		**67,614,505**	**62,235,510**	**56,944,981**
Inventories	20	926,362	1,116,735	1,048,777
Trade receivables	21	1,508,777	1,766,113	1,494,704
Tax receivables		357	357	0
Other financial assets	22	122,175	65,026	39,732
Other assets	23	889,314	586,019	523,138
Cash and cash equivalents	31	1,832,926	169,612	1,975,184
Assets held for sale	15	217,879	187,768	477,957
Total current assets		**5,497,790**	**3,891,630**	**5,559,492**
TOTAL ASSETS		**73,112,295**	**66,127,140**	**62,504,473**
Share capital	24	20,000,000	20,000,000	20,000,000
Reserve and other funds	24	16,556,983	16,587,992	16,531,014
Retained earnings		7,510,848	7,196,661	7,248,757
Total equity		**44,067,831**	**43,784,653**	**43,779,771**
Loans and borrowings	25	15,799,100	9,507,421	8,867,044
Provisions	26	150,439	469,358	501,265
Other financial liabilities	28	167,979	66,951	59,414
Total non-current payables		**16,117,518**	**10,043,730**	**9,427,723**
Trade payables	27	5,342,009	5,633,230	5,667,891
Loans and borrowings	25	5,192,058	3,249,569	455,898
Provisions	26	480,882	484,302	263,980
Other financial payables	28	38,059	19,578	300,147
Other payables	29	1,873,938	2,912,078	2,609,063
Total current payables		**12,926,946**	**12,298,757**	**9,296,979**
TOTAL LIABILITIES		**73,112,295**	**66,127,140**	**62,504,473**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

		Year ended 31 Dec 2011 CZK thousand	Year ended 31 Dec 2010 CZK thousand
CONTINUING OPERATIONS			
Revenue from principal operations*	5	19,122,209	18,721,875
Other operating income	6	2,339,413	1,908,696
Purchased consumables and services*	7	-9,851,285	-9,599,913
Employee benefit costs*	8	-7,781,759	- 8,349,679
Depreciation and amortisation	9	-3,597,340	-3,270,518
Other operating profits, net*	10	150,453	104,607
Profit (loss) before interest and tax*		**381,691**	**-484,932**
Financial expenses*	11	-412,734	-144,089
Other gains (losses), net*	12	-50,366	385,074
Loss before tax*)		**-81,409**	**-243,947**
Income tax expense	13	282	-1,999
Loss for the period from continuing operations*		**-81,127**	**-245,946**
DISCONTINUED OPERATIONS			
Profit from discontinued operations*	15	395,781	193,850
Profit (loss) for the year		**314,654**	**-52,096**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Year ended 31 Dec 2011 CZK thousand	Year ended 31 Dec 2010 CZK thousand
Profit (loss) for the year	314,654	-52,096
Cash flow hedging	-31,476	56,978
Relating income tax	0	0
Other comprehensive income (loss) for the year, net of tax	**-31,476**	**56,978**
Total comprehensive income for the year	**283,178**	**4,882**

* After the change in the presentation for the year ended 31 December 2010, refer to Note 15.3.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(CZK thousand)

	Share capital	Reserve and other funds	Retained earnings	Total equity
Balance at 1 January 2010	**20,000,000**	**16,531,014**	**7,248,757**	**43,779,771**
Loss for the period	0	0	-52,096	-52,096
Other comprehensive income for the year, net of tax	0	56,978	0	56,978
Allocation to the reserve fund	0	0	0	0
Balance at 31 December 2010	**20,000,000**	**16,587,992**	**7,196,661**	**43,784,653**
Profit for the period	0	0	314,654	314,654
Other comprehensive income for the year, net of tax	0	-31,476	0	-31,476
Allocation to the reserve fund	0	467	-467	0
Balance at 31 December 2011	**20,000,000**	**16,556,983**	**7,510,848**	**44,067,831**

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year before tax	314,372	-50,097
Dividend income	-83,267	-67,686
Financial expenses	412,734	151,238
Profit from the sale and disposal of non-current assets	-1,125,166	-548,547
Depreciation and amortisation of non-current assets	3,597,340	3,270,518
Impairment of non-current assets	-243,746	-195,527
Impairment of trade receivables	33,050	6,015
Foreign exchange rate gains (losses)	176,917	-343,946
Other	-28,071	15,428
Cash flows from operating activities before changes in working capital	**3,054,163**	**2,237,396**
Decrease (increase) in trade receivables	405,305	-277,424
Decrease (increase) in inventories	125,414	-68,455
Decrease (increase) in other assets	-195,259	-71,161
Increase (decrease) in trade payables	-955,410	-94,713
Increase (decrease) in provisions	-148,913	188,414
Increase (decrease) in other payables	-776,673	358
Total changes in working capital	**-1,545,536**	**-322,981**
Cash flows from operating activities	**1,508,627**	**1,914,415**
Interest paid	-188,136	-144,797
Income tax paid	282	-2,356
Net cash flows from operating activities	**1,320,773**	**1,767,262**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment*	-7,027,203	-7,579,414
Proceeds from disposal of property, plant and equipment	839,026	1,135,297
Payments for investment property	-14,965	-86,408
Net cash flows on disposal of a subsidiary	0	600,400
Net cash flows on disposal of a business part	179,940	0
Costs of acquisition of intangible assets	-74,808	-83,859
Received interest	9,846	11,441
Received dividends	83,267	67,686
Net cash flows (used in) from investment activities*	**-6,004,897**	**-5,934,857**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of loans and borrowings*	7,754,800	2,787,883
Repayments of loans and borrowings	-1,407,362	-425,860
Net cash flows from financing activities*	**6,347,438**	**2,362,023**
Net increase (decrease) in cash and cash equivalents	**1,663,314**	**-1,805,572**
Cash and cash equivalents at the beginning of the reporting period	169,612	1,975,184
Cash and cash equivalents at the end of the reporting period	**1,832,926**	**169,612**

* Restated figures for the year ended 31 December 2010, refer to Note 25.1.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1 GENERAL INFORMATION

1.1 FORMATION OF THE 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, 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 financial statements have been prepared as of and for the year ended 31 December 2011. The reporting period is the calendar year, i.e. from 1 January 2011 to 31 December 2011.

1.2 PRINCIPAL OPERATIONS

The Company has been principally engaged in operating railway passenger transportation. Other activities of the Company predominantly include the administration of immovable assets (railway station buildings and other). In addition, the Company is engaged in other activities relating to its principal business activities.

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 and servicing of the railway route.

1.3 ORGANISATIONAL STRUCTURE

The 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, Administration of Assets and Sales and Marketing.

1.4 BODIES OF THE COMPANY

The 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 Company's Bodies as of 31 December 2011:

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

On 21 April 2011, Radek Šmerda resigned from the position of Chairman of the Steering Committee. Through its Resolution No. 318 dated 27 April 2011, the Government of the Czech Republic appointed Ivo Vykydal as Chairman of the Steering Committee. On 31 January 2012, the position of the member of the Steering Committee, Petr Polák, expired.

Board of Directors	
Chairman	Petr Žaluda
1st Vice Chairman	Vladimír Bail
Member	Michal Nebeský
Member	Jiří Kolář
Member	Ctirad Nečas

At its meeting on 9 November 2011, the Supervisory Board recalled Milan Matzenauer and Antonín Blažek from their positions of members of the Board of Directors with immediate effect. On the same date, the Supervisory Board appointed Vladimír Bail as the first Vice Chairman of the Board of Directors and Ctirad Nečas as a member of the Board of Directors with immediate effect.

Supervisory Board	
Chairman	Lukáš Hampl
Member	Daniel Bartek
Member	Michael Hrbata
Member	Antonín Leitgeb
Member	Miroslav Nádvorník
Member	Jaroslav Pejša
Member	Martin Riegl
Member	Ivo Toman
Member	Vladislav Vokoun

At its meeting on 28 April 2011, the Supervisory Board discussed the resignation of Radek Šmerda and discontinued his membership in the Supervisory Board through Resolution No. 1415 dated 28 April 2011. The term of office of Jan Bittner expired on 4 May 2011 in accordance with the Articles of Association of the Company. Jaroslav Pejša was appointed a member of the Supervisory Board in the election held on 26 April to 29 April 2011. His function originated on 5 May 2011. At its meeting held on 19 August 2011, the Steering Committee recalled Zdeněk Prosek from the position of a member of the Supervisory Board with immediate effect and appointed Ivo Toman and Martin Riegl as members of the Supervisory Board with immediate effect. At its meeting held on 7 October 2011, the Steering Committee recalled Jaroslav Palas from the position of a member of the Supervisory Board and appointed Daniel Bartek a member of the Supervisory Board with effect from 8 October 2011.

Through its Resolution No. 1495, the Supervisory Board established the Remuneration Committee of České dráhy, acting as a sub-committee of the Supervisory Board, on 8 September 2011.

Remuneration Committee	
Chairman	Ivo Toman
Member	Miroslav Nádvorník
Member	Martin Riegl

Composition of the Audit Committee as of 31 December 2011:

Audit Committee	
Chairman	Miroslav Zámečník
Member	Michael Hrbata
Member	Zdeněk Prosek

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. The composition of the Risk Management Committee as of 31 December 2011:

Risk Management Committee	
Chairman	Petr Vohralík
Member	Antonín Blažek
Member	Jaroslav Král
Member	Michal Nebeský

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

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

2.3 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 Company has transferred to the buyer the 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 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 Company 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.

2.4 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.

2.4.1 The Company 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 Company'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.

2.4.2 The Company as a Lessee

Assets held under finance leases are initially recognised as assets of the Company 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 Company'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.

2.5 FOREIGN CURRENCIES

Given the economic substance of transactions and the environment in which the Company 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.

2.6 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.

2.7 GOVERNMENT GRANTS

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

Government grants whose primary condition is that the Company 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 Company without future related costs are recognised in profit or loss in the period in which they become receivable.

2.8 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.

2.9 TAXATION

The income tax includes current tax payable and deferred tax.

2.9.1 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.

2.9.2 Deferred Tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

2.9.3 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 profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

2.10 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 Company 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. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

2.11 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 Company measures its investment property using the cost valuation model in accordance with the requirements of IAS 16 Property, Plant and Equipment.

2.12 INTANGIBLE ASSETS

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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

2.13 IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At the end of each reporting period, the Company 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 Company 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.

2.14 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

A subsidiary is an entity in which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

An associate is an entity over which the Company 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.

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

In the separate financial statements, investments in subsidiaries and associates and joint ventures, which are not classified as held for sale, are reported at cost.

2.15 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.

2.16 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.

2.17 PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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.

2.18 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company 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 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.

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'.

2.18.1 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.

2.18.2 Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Upon initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

2.18.3 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 Company holds equity investments (other than subsidiaries and associates) 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.

2.18.4 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.

2.18.5 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 Company records impairment losses (allowances) based on an individual assessment of trade receivables and 20 percent allowances against receivables that are past due by greater than six months, full allowances against receivables that are past due by greater than twelve months and their value does not exceed CZK 30 thousand and full allowances against receivables registered for recovery under insolvency proceedings and receivables where court proceedings against the relevant debtor have been initiated. The Company 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.

2.18.6 Derecognition of Financial Assets

The Company 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.

2.18.7 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 Company are recognised at the proceeds received, net of direct issue costs.

2.18.8 Other Financial Liabilities

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

2.18.9 Derecognition of Financial Liabilities

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

2.18.10 Derivative Financial Instruments

The Company 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.

2.18.11 Hedge Accounting

The Company 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 Company 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.

2.18.12 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 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 Company 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 2011

During the year ended 31 December 2011, 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	
– Limited Exemption from Disclosure Requirements of IFRS 7	1 July 2010
– Limited Exemption from Requirements of IFRS 9	1 July 2010
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
IAS 24 – Related Party Disclosures	1 January 2011
IAS 32 – Classification of Rights Issues	1 February 2010
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

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

The Company 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').

3.2 STANDARDS AND INTERPRETATIONS USED BEFORE THEIR EFFECTIVE DATES

The Company used no standards or interpretations before their effective dates.

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 Company 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	
– 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 2013
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2015
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2015
IFRS 10 – Consolidated Financial Statements	1 January 2013
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits	1 January 2013
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Management of the Company anticipates that the adoption of these standards, revised standards and interpretations will have no material impact on the Company in the following periods, except for the detailed presentation under IFRS 12 and IAS 1.

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 stated in the previous chapter (3.3.) were not accepted 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 2013
IFRS 9	
– Financial Instruments – Classification and Measurement	1 January 2015
– Amendments to IFRS 9 for recognition of financial liabilities	1 January 2015
IFRS 10 – Consolidated Financial Statements	1 January 2013
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits	1 January 2013
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IAS 32 – Offsetting of Financial Assets and Financial Liabilities	1 January 2014
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company'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 Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Although the Company 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 Company 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 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 INSTRUMENTS

The Company 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 Company 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 Company recognises a provision for employee benefits. In calculating the provision, the Company 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.

4.7 PROVISIONS FOR LEGAL DISPUTES AND BUSINESS RISKS

The Company is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Company creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates.

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.

(CZK thousand)

	2011	2010
Revenue from passenger transportation - fare	6,844,060	6,610,762
– Intrastate passenger transportation	*5,037,608*	*4,792,985*
– International passenger transportation	*1,806,452*	*1,817,777*
Revenue from passenger transportation - payments from public service orderers	12,257,504	12,111,113
– Payment from the state budget	*4,081,091*	*4,075,037*
– Payment from the regional budget	*8,176,413*	*8,036,076*
Other revenue from principal operations	20,645	0
Total revenue from principal operations – continuing operations	**19,122,209**	**18,721,875**

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 and revenue from other transportation.

6 OTHER OPERATING INCOME

(CZK thousand)

	2011	2010
Gain from property, plant and equipment and investment property	703,459	337,839
Gain from the sale of inventory	71,928	68,488
Sales of other services	482,943	460,373
Rental income	607,556	635,884
Compensations for deficits and damage	65,840	89,136
Gain on material	27,581	38,779
Other subsidies	397	2,444
Other	379,709	275,753
Total other operating income – continuing operations	**2,339,413**	**1,908,696**

"Other" includes a receivable from Škoda Transportation, a.s. arising from the contractual sanctions for the delay in supplies of the 380 series locomotive. Negotiations regarding adequate compensation by the supplier have not yet been completed.

7 PURCHASED CONSUMABLES AND SERVICES

(CZK thousand)

	2011	2010
Traction costs	-2,781,019	-2,629,003
– Traction fuel (diesel)	*-1,357,224*	*-1,302,719*
–Traction electricity	*-1,423,795*	*-1,326,284*
Payment for the use of railway route	-1,680,149	-1,444,051
Other purchased consumables and services	-5,390,117	- 5,526,859
– Consumed material	*-1,011,560*	*-1,089,989*
– Consumed other energy	*-602,051*	*-637,709*
– Consumed fuel	*-76,027*	*-71,884*
– Repairs and maintenance	*-619,869*	*-631,667*
– Travel costs	*-115,418*	*-118,761*
– Telecommunication, data and postal services	*-321,421*	*-364,595*
– Other rental	*-97,868*	*-97,832*
– Rental for rail vehicles	*-428,062*	*-420,125*
– Transportation charges	*-221,179*	*-221,144*
– Services of dining and sleeping carriages	*-104,850*	*-127,929*
– Services associated with the use of buildings	*-268,272*	*-251,090*
– Operational cleaning of rail vehicles	*-432,064*	*-408,482*
– Border area services	*-208,392*	*-269,668*
– Advertising and promotion costs	*-117,877*	*-134,825*
– Other services	*-765,207*	*-681,159*
Total purchased consumables and services – continuing operations	**-9,851,285**	**-9,599,913**

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

8 EMPLOYEE BENEFIT COSTS

(CZK thousand)

	2011	2010
Payroll costs	-5,521,037	-5,701,319
Severance pay	-67,116	-328,642
Statutory social security and health insurance	-1,824,942	-1,925,157
Benefits resulting from the collective agreement	-72,793	-97,956
Other social costs	-290,221	-290,785
Other employee benefit costs	-5,650	-5,820
Total employees benefit costs – continuing operations	**-7,781,759**	**-8,349,679**

9 DEPRECIATION AND AMORTISATION

(CZK thousand)

	2011	2010
Depreciation of property, plant and equipment	-3,381,452	-3,030,233
Depreciation of investment property	-74,317	-68,764
Amortisation of intangible assets	-141,571	-171,521
Total depreciation and amortisation – continuing operations	**-3,597,340**	**-3,270,518**

10 OTHER OPERATING GAINS

(CZK thousand)

	2011	2010
Change in other provisions	36,112	13,820
Reversal of losses from impaired receivables	-8,757	22,859
Reversal of losses from impaired property, plant and equipment and investment property	243,746	194,977
Reversal of the write-down (write-down) of inventories to their net realisable value	740	-496
Taxes and fees	-44,295	-49,702
Other operating expenses	-77,093	-76,851
Total other operating gains – continuing operations	**150,453**	**104,607**

11 FINANCIAL EXPENSES

(CZK thousand)

	2011	2010
Interest on bank overdraft accounts and loans	-3,235	-6,195
Interest on the loan from ČSOB and loans from Eurofima	-61,554	-62,708
Interest on issued bonds	-271,564	-105,573
Interest on finance lease payables	-88,318	-38,351
Other interest	-98,882	-26,897
Less: amounts capitalised as part of the costs of an eligible asset	117,838	105,573
Unwinding of the discount of provisions	-7,019	-9,938
Total financial expenses – continuing operations	**-412,734**	**-144,089**

12 OTHER GAINS (LOSSES)

(CZK thousand)

	2011	2010
Net foreign exchange gains (losses)	-130,809	288,173
Received dividends	83,267	67,686
Received interest	11,380	11,441
Gains from current financial assets	16,141	2,408
Banking fees	-17,334	-18,164
Actuarial gains (losses)	-2,061	40,758
Other	-10,950	-7,228
Total other gains (losses) – continuing operations	**-50,366**	**385,074**

13 INCOME TAXATION

13.1 INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK thousand)

	2011	2010
Current income tax for the period reported in profit or loss	0	0
Deferred tax recognised in the income statement	0	0
Other*	282	-1,999
Total tax charge relating to continuing operations	**282**	**-1,999**

* Predominantly taxes paid from the individual tax base, eg received dividends, overpayments and arrears.

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

(CZK thousand)

	2011	2010
Loss from continuing operations before tax	-81,409	-245,946
Income tax calculated using the statutory rate of 19%	15,468	46,730
Effect of the unrecognised deferred tax asset	11,763	27,606
Other*	-26,949	-76,335
Income tax reported in profit or loss	**282**	**-1,999**

* The effect of permanently non-tax expenses and income, 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 DEFERRED TAX

(CZK thousand)

	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Other	Total
Balance at 1 Jan 2010 – calculated	**1,451,060**	**-1,335,785**	**145,397**	**12,926**	**14,621**	**2,322**	**290,541**
Balance at 1 Jan 2010 – recognised	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Deferred tax recognised in profit or loss:	0	0	0	0	0	0	0
– of which current changes in the deferred tax	*-331,442*	*310,971*	*-12,461*	*21,078*	*-6,124*	*-9,628*	*-27,606*
*– of which impairment**	*331,442*	*-310,971*	*12,461*	*-21,078*	*6,124*	*9,628*	*27,606*
Deferred tax recognised in other comprehensive income	0	0	0	0	0	0	0
– of which current changes in the deferred tax	*0*	*0*	*0*	*0*	*0*	*-10,735*	*-10,735*
*– of which impairment**	*0*	*0*	*0*	*0*	*0*	*10,735*	*10,735*
Balance at 31 Dec 2010 – calculated	**1,119,618**	**-1,024,814**	**132,936**	**34,004**	**8,497**	**-18,041**	**252,200**
Balance at 31 Dec 2010 – recognised	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Deferred tax recognised in profit or loss:	0	0	0	0	0	0	0
– of which current changes in the deferred tax	*-334,581*	*350,994*	*-12,984*	*-37,527*	*-812*	*23,147*	*-11,763*
*– of which impairment**	*334,581*	*-350,994*	*12,984*	*37,527*	*812*	*-23,147*	*11,763*
Deferred tax recognised in other comprehensive income	0	0	0	0	0	0	0
– of which current changes in the deferred tax	*0*	*0*	*0*	*0*	*0*	*-4,845*	*-4,845*
*– of which impairment**	*0*	*0*	*0*	*0*	*0*	*4,845*	*4,845*
Balance at 31 Dec 2011 – calculated	**785,037**	**-673,820**	**119,952**	**-3,523**	**7,685**	**261**	**235,592**
Balance at 31 Dec 2011 – recognised	**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 2011 taxation period, the Company records tax losses for the 2007 and 2009 taxation periods in the aggregate amount of CZK 3,989,410 thousand. Tax losses can be carried forward in five taxation periods subsequent to the period in which the relevant loss was assessed, ie between 2012 and 2015.

Given the low anticipated taxable profits, the realisation of deferred tax assets is uncertain. For this reason, the 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 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 Company's reportable segments under IFRS 8 are therefore as follows:

- Passenger transportation – other information on passenger railway transportation is disclosed in Note 14.3.
- Management of operations – the Company provided this activity for the operator of the railway route, SŽDC, before 31 August 2011, other information is provided in Note 30.
- Administration of assets – the segment provides the administration and operations of real estate owned by the Company, including internal and external leases. Real estate predominantly includes station buildings and land surrounding the railroad.
- Other – predominantly overhead activities that are not allocated to other segments.

14.2 SEGMENT REVENUES AND EXPENSES

The following is an analysis of the Company's results from continuing operations by reportable segment in the format in which the financial statement is presented to the 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)

2011	Passenger transportation	Management of operations (before 31 August 2011)	Administration of assets	Other	Elimination and reconciliation*	Total
Revenue from principal operations						
Revenue from passenger transportation	6,844	0	0	0	0	6,844
Revenue from securing railway routes	0	3,267	0	0	-3,267	0
Payments from orderers	12,257	0	0	0	1	12,258
Other	79	8	1	22	-90	20
	19,180	**3,275**	**1**	**22**	**- 3,356**	**19,122**
Purchased consumables and services						
Traction costs	-2,781	0	0	0	0	-2,781
Payment for the use of the railway route	-1,636	0	0	0	-44	-1,680
Other purchased consumables and services	-5,851	-183	-721	-679	2,044	-5,390
	-10,268	**-183**	**-721**	**-679**	**2,000**	**-9,851**
Staff costs						
Payroll costs	-4,961	-2,048	-191	-477	2,089	-5,588
Social security and health insurance	-1,634	-683	-64	-140	696	-1,825
Statutory social costs	-31	-22	-2	-4	-231	-290
Statutory social costs – benefits arising from the collective agreement	-237	-100	-7	-9	274	-79
	-6,863	**-2,853**	**-264**	**-630**	**2,828**	**-7,782**
Other operating income and expenses	852	-21	1,446	191	21	2,489
Intracompany income and expenses	-273	-18	317	-26	0	0
Overhead costs – operating	-894	-175	-60	1,122	7	0
Depreciation and amortisation	-1,854	-32	-230	-101	-1,380	-3,597
Other income and expenses	-444	266	1	78	-363	-462
Overhead costs – financial and other	-19	-3	-2	23	1	0
Profit (loss) for the period from continuing operations	**-583**	**256**	**488**	**0**	**-242**	**-81**
Profit for the period from discontinued operations	0	0	0	0	396	396
Profit (loss) for the period	**-583**	**256**	**488**	**0**	**154**	**315**

* The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS. This principally involves the reclassification of the profit or loss of the Management of Operations segment into discontinued operations (refer to Note 15).

(CZK million)

2010	Passenger transportation**	Management of operations	Administration of assets	Other	Elimination and reconciliation*	Total
Revenue from principal operations						
Revenue from passenger transportation	6,628	0	0	0	-17	6,611
Revenue from securing railway routes	0	5,194	0	0	-5,194	0
Payments from orderers	12,111	0	0	0	0	12,111
Other	119	52	3	6	-180	0
	18,858	**5,246**	**3**	**6**	**-5,391**	**18,722**
Purchased consumables and services						
Traction costs	-2,631	0	0	0	2	-2 629
Payment for the use of the railway route	-1,398	0	0	0	-46	-1 444
Other purchased consumables and services	-6,205	-278	-689	-554	2,199	-5,527
	-10,234	**-278**	**-689**	**-554**	**2,155**	**-9,600**
Staff costs						
Payroll costs	-5,347	-3,379	-241	-564	3,501	-6,030
Social security and health insurance	-1,712	-1,091	-73	-158	1,109	-1,925
Statutory social costs	-35	-47	-2	-3	-204	-291
Statutory social costs – benefits arising from the collective agreement	-232	-149	-7	-12	296	-104
	-7,326	**-4,666**	**-323**	**-737**	**4,702**	**-8,350**
Other operating income and expenses	1,002	-28	1,088	-213	164	2,013
Intracompany income and expenses	-154	-18	203	-31	0	0
Overhead costs – operating	-895	-264	-63	1,222	0	0
Depreciation and amortisation	-1,692	-34	-220	-119	-1,206	-3,271
Other income and expenses	288	-4	6	322	-372	240
Overhead costs – financial and other	145	46	12	-203	0	0
Profit (loss) for the period from continuing operations	**-8**	**0**	**17**	**-307**	**52**	**-246**
Profit (loss) for the period from discontinued operations	0	0	0	307	-113	194
Profit (loss) for the period	**-8**	**0**	**17**	**0**	**-61**	**-52**

* The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS. This principally involves the reclassification of the profit or loss of the Management of Operations segment into discontinued operations (refer to Note 15).

** In 2011, the Company changed the methodology of segment internal reporting. For this reason, the comparative information for 2010 was subject to reclassifications relating to certain items of income and expenses in the 'Passenger transportation' segment.

14.3 INFORMATION ON PRINCIPAL CUSTOMERS

The 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 Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

By adopting Act No. 194/2010 Coll., on Public Services in Passenger Transportation and Changes in Other Acts, the Czech Republic has harmonised its public transport legislation with EU laws. The Company has concluded contracts for the public service commitment for the period of 10 years and more which are governed by the legal regulations before the adoption of the Act referred to above. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of 10 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 became effective.

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 the increase in the special-purpose grant in individual following years.

As of the balance sheet date, amendments to the major part of the ten-year contracts were concluded. In several cases, there are still discussions regarding comments on partial provisions rather than the amendment as a whole. Management of the Company believes that the conclusion of all the amendments is very likely. In the context of the provision of public services in the transportation of passengers, this fact does not constitute any limitations – given the concluded long-term contracts, there is no threat regarding the interruption of their provision or their funding. Prepayments for the settlement of the provable loss are made – in respect of the not-yet-signed amendments for 2012 – in the amount of the prepayments from 2011.

15 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

15.1 SALE OF TRAŤOVÁ STROJNÍ SPOLEČNOST, A.S. ("TSS")

The sale of the equity investment in Traťová strojní společnost, a.s. 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.

15.2 SPIN-OFF OF THE PART OF BUSINESS – MANAGEMENT OF OPERATIONS

In 2008, part of the 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 Company, which delivered the activities to SŽDC, the railway operator, as a contractor.

Pursuant to the resolution of the Czech Government, another contract for the sale of the part of business was concluded between the Company and SŽDC as of 1 September 2011. It involves the sale of the Management of Operations. The selling price according to the contract for the sale of the part of business was determined on the basis of the valuation of an expert in the amount of CZK 389,940 thousand. As of 1 September 2011, 9,326 employees were transferred to SŽDC.

15.3 ANALYSIS OF THE PROFIT (LOSS) AND CASH FLOWS FROM DISCONTINUED OPERATIONS

The table shows the profit (loss) from discontinued operations. For 2010, it is composed of the gain from the sale of TSS and the discount on the purchase price upon the transfer of the Company's business part to SŽDC in 2008 and profit or loss of the Management of Operations.

Pursuant to the requirements of IFRS 5, there was a change in the presentation of comparative amounts in the income statement, the items of the economic result of Management of Operations for 2010 were moved to the discontinued operations. The figures for 2011 include the profit or loss of Management of Operations and the profit from the sale of the part of business – Management of Operations.

(CZK thousand)

	2011	2010 before the change	Change in presentation 2010 Management of Operations	Changed data 2010 – total
Revenue of principal activities	*3,275,000*	*0*	5,246,000	5,246,000
Other operating income	*0*	*0*	*0*	*0*
Purchased consumables and services	*-175,442*	*0*	*-257,700*	*-257,700*
Costs of employee benefits	*-2,901,518*	*0*	*-4,753,877*	*-4,753,877*
Depreciation and amortisation	*0*	*0*	*0*	*0*
Other operating losses	*-219,000*	*0*	*-310,005*	*-310,005*
Loss before interest and tax	-20,960	0	-75,582	-75,582
Financial expenses	*-1,143*	*0*	*-7,149*	*-7,149*
Other gains(losses)	*-3,821*	*0*	*71,319*	*71,319*
Loss before tax	-25,924	0	-11,412	-11,412
Income tax expense	*0*	*0*	*0*	*0*
Profit or loss of the part of business – Management of Operations	**-25,924**	**0**	**-11,412**	**-11,412**
– Received consideration	*389,940*	*600,400*	*0*	*600,400*
– Transferred net assets to SŽDC (2011) / Sold equity investment in TSS (2010)	*31,765*	*-389,692*	*0*	*-389,692*
– Relevant income tax recognised in expenses	*0*	*0*	*0*	*0*
Profit from the sale of discontinued operations	**421,705**	**210,708**	**0**	**210,708**
Discount from the purchase price upon the transfer of the part of business to SŽDC in 2008	0	-5,446	0	-5,446
Total profit from discontinued operations	**395,781**	**205,262**	**-11,412**	**193,850**

(CZK thousand)

	2011	2010
Cash flows from operating activities	23,000	34,000
Cash flows from investment activities	172 ,864	593,478
– Net cash flows on disposal of a business part/a subsidiary	*179,940**	*600,400*
– Proceeds from disposal of property, plant and equipment	*107*	*177*
– Payments for property, plant and equipment	*-7,183*	*-7,099*
Cash flows from financing activities	0	0
Net cash flows from discontinued operations	**195,864**	**627,478**

* The remaining CZK 120,000 thousand from the aggregate selling price of the Management of Operations segment was settled through the offset.

15.4 ASSETS HELD FOR SALE

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Intangible assets	0	0	0
Land	90,000	40,000	30,680
Buildings	127,879	147,768	57,585
Investments in subsidiaries and associates	0	0	389,692
Total	**217,879**	**187,768**	**477,957**

The following table presents the decrease in the net assets of the Management of Operations as of the date of sale to SŽDC.

(CZK thousand)

	31 August 2011
Intangible assets	41,904
Property, plant and equipment	31,993
Inventory	65,699
Trade receivables	1,939
Cash and cash equivalents	0
Tax receivables	0
Other financial assets	0
Other assets	126
Total assets	**141,661**

(CZK thousand)

	31 August 2011
Trade payables	0
Provisions	173,426
Short-term bank loans	0
Tax payables	0
Other payables	0
Payables relating to assets held for sale	**173,426**
Net assets	**-31,765**

16 PROPERTY, PLANT AND EQUIPMENT

(CZK thousand)

Cost	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Land	6,203,958	20,042	24,017	-41,415	6,158,568	1,718	46,885	-82,846	6,030,555
Structures	14,260,807	308,990	91,547	-349,264	14,128,986	389,843	172,750	-328,397	14,017,682
Individual movable assets	54,466,773	7 361,990	2,619,512	13,496	59,222,747	7,564,666	1,905,134	-138,893	64,743,386
- Machinery, equipment, and furniture and fixtures	*2,461,230*	*58,732*	*142,012*	*3,897*	*2,381,847*	*48,375*	*142,460*	*-37,833*	*2,249,929*
- Vehicles	*49,899,214*	*5,873,351*	*2,461,821*	*9,637*	*53,320,381*	*6,494,775*	*1,730,867*	*10,170*	*58,094,459*
- Vehicles acquired under finance leases	*1,994,828*	*1,429,545*	*3,470*	*0*	*3,420,903*	*959,967*	*17,917*	*-17,834*	*4,345,119*
- Other	*111,501*	*362*	*12,209*	*-38*	*99,616*	*61,549*	*13,890*	*-93,396*	*53,879*
Other assets	4,135	65	369	0	3,831	908	581	-6	4,152
Assets under construction	1,255,131	5,355,121	3,007	-5,092,853	1,514,392	5,550,116	25,720	-5,196,506	1,842,282
Prepayments	1,864,495	3,453,723	2,299,936	0	3,018,282	2,685,645	1,429,784	0	4,274,143
Total	**78,055,299**	**16,499,931**	**5,038,388**	**-5,470,036**	**84,046,806**	**16,192,896**	**3,580,854**	**-5,746,648**	**90,912,200**

Accumulated depreciation	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Structures	6,614,367	284,091	60,689	-334,493	6,503,276	287,084	110,887	-113,196	6,566,277
Individual movable assets	27,667,706	2,579,309	2,034,381	3,361	28,215,995	3,000,230	1,082,525	-86,717	30,046,983
- Machinery, equipment, and furniture and fixtures	*1,775,456*	*103,620*	*138,958*	*4,518*	*1,744,636*	*90,091*	*122,641*	*-31,762*	*1,680,324*
- Vehicles	*25,553,351*	*2,341,774*	*1,880,461*	*144*	*26,014,808*	*2,716,451*	*928,452*	*-31,559*	*27,771,248*
- Vehicles acquired under finance leases	*243,357*	*131,181*	*2,892*	*0*	*371,646*	*192,127*	*17,407*	*0*	*546,366*
- Other	*95,542*	*2,734*	*12,070*	*-1,301*	*84,905*	*1,561*	*14,025*	*-23,396*	*49,045*
Other assets	184	13	123	0	74	60	0	0	134
Total	**34,282,257**	**2,863,413**	**2,095,193**	**-331,132**	**34,719,345**	**3,287,374**	**1,193,412**	**-199,913**	**36,613,394**

Impairment	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Land	3,814	3,818	3,815	0	3,817	0	0	0	3,817
Structures	59,029	54,877	59,028	0	54,878	0	10,044	0	44,834
Individual movable assets	1,274,332	122,894	313,990	0	1,083,236	0	232,411	0	850,825
- Machinery, equipment, and furniture and fixtures	*238*	*171*	*238*	*0*	*171*	*0*	*92*	*0*	*79*
- Vehicles	*1,274,094*	*122,723*	*313,752*	*0*	*1,083,065*	*0*	*232,319*	*0*	*850,746*
Total	**1,337,175**	**181,589**	**376,833**	**0**	**1,141,931**	**0**	**242,455**	**0**	**899,476**

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 thousand)

Net book value	Balance at 1 Jan 2010	Balance at 31 Dec 2010	Balance at 31 Dec 2011
Land	6,200,144	6,154,751	6,026,738
Buildings	7,587,411	7,570,832	7,406,571
Individual movable assets	25,524,735	29,923,516	33,845,578
- Machinery, equipment, and furniture and fixtures	*685,536*	*637,040*	*569,526*
- Vehicles	*23,071,769*	*26,222,508*	*29,472,465*
- Vehicles acquired under finance leases	*1,751,471*	*3,049,257*	*3,798,753*
- Other	*15,959*	*14,711*	*4,834*
Other assets	3,951	3,757	4,018
Assets under construction	1,255,131	1,514,392	1,842,282
Prepayments	1,864,495	3,018,282	4,274,143
Total	**42,435,867**	**48,185,530**	**53,399,330**

Principal additions from 1 January 2010 to 31 December 2011 include the acquisition of railway vehicles as part of the renewal of the Company's rolling stock. Given the long-term nature of the acquisition of this type of assets, significant balances are reported on the accounts of assets under construction and prepayments. As of 31 December 2011, this primarily involves the purchase of train sets for regional transportation and the 380 series locomotives. The Company is conducting negotiations with the supplier of these locomotives, Škoda Transportation, regarding compensation for delays in the contracted deliveries. The negotiations have not yet been finalised. For this reason, the form and amount of the final settlement cannot be determined. Management of the Company believes that the final settlement will not have any adverse impact on the current value of assets under construction and prepayments.

In 2011, the Company acquired non-current assets financed through government grants in the amount of CZK 850 thousand (2010: 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, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the inventory count and analyses, the Company identified items of assets for which there is a significant doubt about their future usability. The Company 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 2011, 2010 and 1 January 2010 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 719,340 thousand, CZK 960,342 thousand and CZK 1,154,680 thousand, respectively. The impairment was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. The reversal of the impairment between 2009, 2010 and 2011 is due to the development of the railway transportation in the region and improvement in the operating use of the units. The costs and income associated with the Pendolino trains are reported in the Passenger Transportation segment.

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

16.2 ASSETS PLEDGED AS COLLATERAL

The Company holds assets at the net book value of CZK 3,474,975 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 2,420,509 thousand, the Ampz passenger coaches amounted to CZK 445,148 thousand and the Bmz passenger coaches amounted to CZK 609,318 thousand. The pledge was established in favour of EUROFIMA.

16.3 REDUNDANT IMMOVABLE ASSETS

In the property, plant and equipment class, the Company reports assets of CZK 199,408 thousand which are currently not used. These are primarily vacant buildings. The Company anticipates selling the assets in the future but it did not report these assets as assets held for sale, as they have not yet complied with the criteria set out in IFRS 5.

17 INVESTMENT PROPERTY

(CZK thousand)

	2011	2010
Balance at the beginning of the year	2,100,440	2,204,523
Additions from subsequent capitalised expenses	41,022	99,823
Disposals	-102,173	-13,416
Disposals, annual depreciation	-74,317	-68,763
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	301,159	448,124
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-35,847	-468,968
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-79,335	-93,979
Change in the value	348	-239
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-56,297	-6,665
Balance at the end of the year	**2,095,000**	**2,100,440**

(CZK thousand)

	Balance at 31 Dec 2011	Balance at 31 Dec 2010	Balance at 1 Jan 2010
Cost	3,227,643	3,153,314	2,893,707
Accumulated depreciation	-1,132,295	-1,049,795	-687,449
Impairment	-348	-3,079	-1,735
Net book value	**2,095,000**	**2,100,440**	**2,204,523**

The Company 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 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 2011, 2010 and 1 January 2010 is CZK 4,357,846 thousand, CZK 3,493,240 thousand and CZK 3,168,633 thousand, respectively.

The 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 thousand)

Cost	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Development costs	103,872	0	7,614	0	96,258	0	0	-351	95,907
Software	524,924	71,483	2,287	0	594,120	69,524	15,653	-153,418	494,573
Valuable rights	464,050	8,497	484	181	472,244	47,933	7,048	7,465	520,594
Other assets	760	0	0	0	760	0	0	0	760
Assets under construction	128,493	99,385	0	-95,686	132,192	132,385	9,370	-119,577	135,630
Total	**1,222,099**	**179,365**	**10,385**	**-95,505**	**1,295,574**	**249,842**	**32,071**	**-265,881**	**1,247,464**

Accumulated amortisation	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Development costs	102,826	525	7,614	0	95,737	520	0	-350	95,907
Software	373,091	120,718	1,773	0	492,036	83,898	15,390	-99,755	460,789
Valuable rights	242,057	50,278	0	0	292,335	53,094	3,252	-112	342,065
Other assets	760	0	0	0	760	0	0	0	760
Total	**718,734**	**171,521**	**9,387**	**0**	**880,868**	**137,512**	**18,642**	**-100,217**	**899,521**

Impairment	Balance at 1 Jan 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2010	Additions	Disposals	Reclassification	Balance at 31 Dec 2011
Software	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Net book value	Balance at 1 Jan 2010	Balance at 31 Dec 2010	Balance at 31 Dec 2011
Development costs	1,046	521	0
Software	151,833	102,084	33,784
Valuable rights	221,993	179,909	178,529
Other assets	0	0	0
Assets under construction	128,493	132,192	135,630
Total	**503,365**	**414,706**	**347,943**

The costs of amortisation were reported in the line 'Depreciation and amortisation' in the income statement. The Company used useful lives of 1.5–6 years in calculating amortisation.

Intangible fixed assets include software used in business activities entitled ARES, In-card, UNIPOK, IS OPT, GSM-R and items relating 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, software used in business activities - MAVIS, IS-PRM, IS-ADPV, In-cards, IS-KADR and Projekt 602 software modules.

19 INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

19.1 INFORMATION ON SUBSIDIARIES

(CZK thousand)

Name of the entity	Registered office	Value of investment as of 31 Dec 2011	Value of investment as of 31 Dec 2010	Value of investment as of 1 Jan 2010
Výzkumný Ústav Železniční, a. s.	Prague	382,711	382,711	382,711
ČD – Telematika a. s.	Prague	1,182,129	1,182,129	1,182,129
DPOV, a. s.	Přerov	385,291	385,291	385,291
ČD Cargo, a. s.	Prague	8,760,000	8,760,000	9,066,000
Total		**10,710,131**	**10,710,131**	**11,016,131**

Name of the entity	Principal activities	Investment as of 31 Dec 2011	Investment as of 31 Dec 2010	Investment as of 1 Jan 2010
Traťová strojní společnost, a. s.	Maintenance and repairs of the superstructure	0%	0%	51%
Výzkumný Ústav Železniční, a. s.	Research and development in rail vehicles	100%	100%	100%
ČD – Telematika a. s.	Provision of ITC services	59.31%	59.31%	59.31%
DPOV, a. s.	Repairs and renovations of rail vehicles	100%	100%	100%
ČD Cargo, a. s.	Operations of railway freight transportation	100%	100%	100%

19.2 INFORMATION ON ASSOCIATES

(CZK thousand)

Name of the entity	Registered office	Value of investment as of 31 Dec 2011	Value of investment as of 31 Dec 2010	Value of investment as of 1 Jan 2010
JLV, a. s.	Prague	109,703	109,703	109,703
Total		**109,703**	**109,703**	**109,703**

Name of the entity	Principal activities	Investment as of 31 Dec 2011	Investment as of 31 Dec 2010	Investment as of 1 Jan 2010
JLV, a. s.	Catering services	38.79%	38.79%	38.79%

SUMMARY OF FINANCIAL INFORMATION ON JLV, A.S.:

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Total assets	375,451	377,882	367,092
Total liabilities	71,358	76,396	69,678
Net assets	304,093	301,486	297,414
Share of the Company in associates' net assets	**117,958**	**116,946**	**115,367**

(CZK thousand)

	2011	2010
Total income	308,613	326,951
Profit for the period	11,941	11,214
Share of the Company in associates' profit for the period	**4,632**	**4,350**

19.3 INFORMATION ON JOINT VENTURES

(CZK thousand)

Name of the entity	Registered office	Investment as of 31 Dec 2011
Smíchov Station Development, a. s.	Prague	0
Žižkov Station Development, a. s.	Prague	1,020
Centrum Holešovice, a. s.	Prague	982
Total		**2,002**

Name of the entity	Principal activities	Investment as of 31 Dec 2011
Smíchov Station Development, a. s.	Design, modernisation and development of the Smíchov railway station locality	51%*
Žižkov Station Development, a. s.	Design, renovation, modernisation and development of the Žižkov railways station locality	51%*
Centrum Holešovice, a. s.	Modernisation and development of real estate in the Holešovice railway station locality	51%*

* In accordance with the Articles of Association of these entities, it is necessary to have at least 52% of all votes to adopt significant resolutions.

Investments in these entities were considered immaterial in the prior reporting period. In the financial statements for the year ended 31 December 2010, they were reported as other financial assets available for sale. In the financial statements for the year ended 31 December 2011, they are reported as joint ventures.

SUMMARY OF FINANCIAL INFORMATION ON JOINT VENTURES

(CZK thousand)

31 Dec 2011	Smíchov Station Development, a. s.	Žižkov Station Development, a. s.	Centrum Holešovice, a. s.	Total
Total assets	45,591	6,808	26,338	**78,737**
Total liabilities	54,333	5,160	25,598	**85,091**
Net assets	-8,742	1,648	740	**-6,354**
The Company's share of net assets	**-4,458**	**840**	**378**	**-3,240**
Total income	2	6	6,481	**6,489**
Profit for the period	-1,970	-126	-521	**-2,617**
The Company's share of profit	**-1,005**	**-64**	**-266**	**-1,335**

20 INVENTORIES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Spare parts for machinery and equipment	72,158	74,000	77,274
Spare parts and other components for rail vehicles and locomotives	542,104	581,991	521,215
Other machinery, tools and equipment and their spare parts	85,871	99,169	122,693
Fuels, lubricants and other oil products	22,637	20,888	25,131
Work clothes, work shoes, protective devices	145,233	250,735	233,402
Other	66,145	98,484	77,101
Total cost	**934,148**	**1,125,267**	**1,056,816**
Write-down of inventories to their net realisable value	-7,786	- 8,532	-8,039
Total net book value	**926,362**	**1,116,735**	**1,048,777**

The Company's inventories are principally gathered in the Supply Centre in Česká Třebová.

21 TRADE RECEIVABLES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Long-term	0	0	0
Short-term	1,508,777	1,766,113	1,494,704
Total	**1,508,777**	**1,766,113**	**1,494,704**

21.1 AGING OF TRADE RECEIVABLES

(CZK thousand)

	Category	Before due date	Past due date (days) 1–30	31–90	91–180	181–365	365 and more	Total past due date	Total
31 Dec 2011	Gross	1,468,362	11,598	14,754	7,362	13,115	58,631	105,460	1,573,822
	Allowances	0	0	0	-67	-7,435	-57,543	-65,045	-65,045
	Net	**1,468,362**	**11,598**	**14,754**	**7,295**	**5,680**	**1,088**	**40,415**	**1,508,777**
31 Dec 2010	Gross	1,608,064	108,318	22,557	10,824	14,821	59,528	216,048	1,824,112
	Allowances	0	0	0	0	-3,205	-54,794	-57,999	-57,999
	Net	**1,608,064**	**108,318**	**22,557**	**10,824**	**11,616**	**4,734**	**158,049**	**1,766,113**
1 Jan 2010	Gross	1,419,234	41,862	23,834	47,115	15,151	49,734	177,696	1,596,930
	Allowances	0	0	-363	-36,978	-15,151	-49,734	-102,226	-102,226
	Net	**1,419,234**	**41,862**	**23,471**	**10,137**	**0**	**0**	**75,470**	**1,494,704**

21.2 MOVEMENTS IN ALLOWANCES FOR DOUBTFUL RECEIVABLES

(CZK thousand)

	2011	2010
Balance at the beginning of the year	57,999	102,226
Recognition of allowances	86,893	270,242
Use of allowances	-79,847	-314,469
Balance at the end of the year	**65,045**	**57,999**

22 OTHER FINANCIAL ASSETS

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Financial assets for sale	341,664	339,746	340,843
Receivables from finance leases	113,751	120,713	114,149
Hedging derivatives	415,497	42,793	0
Other	13,870	38,154	25,998
Total non-current financial assets	**884,782**	**541,406**	**480,990**
Receivables from finance leases	-6,375	-6,658	3,466
Hedging derivatives	44,373	15,497	0
Other	84,177	56,187	36,266
Total current financial assets	**122,175**	**65,026**	**39,732**
Total	**1,006,957**	**606,432**	**520,722**

22.1 RECEIVABLES FROM FINANCE LEASES

The Company leased the station buildings at the Brno - hlavní nádraží and Prague-Dejvice stations under finance leases. In respect of the Prague – Dejvice station, the original contract was discontinued in December 2011, the criteria of finance lease recognition were no longer met as of 31 December 2011. The figures as of 31 December 2011 include only Brno-hlavní nádraží.

(CZK thousand)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2011	31 Dec 2010	1 Jan 2010	31 Dec 2011	31 Dec 2010	1 Jan 2010
Under 1 year	3,861	3,707	13,921	-6,375	-6,658	3,466
From 1 to 5 years	24,376	24,823	14,561	-25,183	-25,137	-32,551
5 years and more	438,706	456,402	470,331	138,934	145,850	146,700
Total	**466,943**	**484,932**	**498,813**	**107,376**	**114,055**	**117,615**
Less: unrealised financial income	-359,567	-370,877	-381,198	0	0	0
Present value of receivables of minimum lease payments	**107,376**	**114,055**	**117,615**	**107,376**	**114,055**	**117,615**
In the statement of financial position as:						
– Other current financial assets				*-6,375*	*-6,658*	*3,466*
– Other non-current financial assets				*113,751*	*120,713*	*114,149*
Total				**107 376**	**114 055**	**117 615**

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 thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Total non-current assets	**65,614**	**173,594**	**194,402**
Prepayments made	121,596	130,621	140,889
Tax receivables (except for the corporate income tax)	677,021	342,737	296,657
Prepaid expenses	38,915	40,168	43,805
Other	51,782	72,493	41,787
Total current assets	**889,314**	**586,019**	**523,138**
Total	**954,928**	**759,613**	**717,540**

24 EQUITY

24.1 SHARE CAPITAL

The Company's share capital has been 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 thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Share premium	16,438,594	16,438,594	16,438,594
Statutory reserve fund	92,887	92,420	92,420
Cash flow hedging reserve	25,502	56,978	0
Total	**16,556,983**	**16,587,992**	**16,531,014**

Allocations to the statutory reserve fund are made in accordance with the national legislation.

24.2.1 Cash Flow Hedging Reserve

(CZK thousand)

	2011	2010
Balance at the beginning of the year	56,978	0
Revaluation gain	-17,290	56,978
Reclassification to the profit or loss	-14,186	0
Total change in the cash flow hedging reserve	**-31,476**	**56,978**
Relating income tax	0	0
Balance at the year-end	**25,502**	**56,978**

The cash flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated deferred 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 basis in the hedged non-financial item in accordance with the relevant accounting policies.

Gains and losses reclassified during the year from equity are included under 'Purchased consumables and services' in the income statement.

25 LOANS AND BORROWINGS

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Short-term loans	264,381	256,798	271,195
Short-term issued bills of exchange	2,556,573	2,064,000	0
Payables from finance leases	377,180	204,888	184,703
Overdraft accounts	0	723,883	0
Issued bonds	1,993,924	0	0
Total short-term	**5,192,058**	**3,249,569**	**455,898**
Payable to EUROFIMA	4,256,948	4,134,850	4,366,672
Issued bonds	7,863,509	1,982,412	1,970,899
Loan from ČSOB	528,761	770,392	1,084,780
Payables from finance leases	3,149,882	2,619,767	1,444,693
Total long-term	**15,799,100**	**9,507,421**	**8,867,044**
Total	**20,991,158**	**12,756,990**	**9,322,942**

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 Company received in several tranches a long-term loan from EUROFIMA to finance the purchase of railway vehicles. The interest rate is determined based on the Euribor reference rate. The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2011 and 2010 was CZK 12,259 thousand and CZK 10,255 thousand, respectively. The maturity of the loan is 10 years for each individual tranche.

In December 2012, the bonds with the three-year maturity and fixed coupon of 5% p.a. repayable annually, which the Company issued on 14 December 2009, will mature. 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 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 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 EURIBOR reference rate plus a usual market mark-up. The 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.

On 24 June 2011, the Company issued international bonds with the five-year maturity and fixed coupon of 4.5% p.a. The issue amounted to EUR 300 million and the issue rate was 99.479%. These are bonds listed on the Luxembourg stock exchange. The joint leading managers of the issue were Barclays Capital, Erste Group and Société Générale. The proceeds are intended for the modernisation of the Company's rolling stock.

The Company breached no loan covenants in the reporting period.

25.1 FINANCE LEASE PAYABLES

Finance leases relate to railway vehicles with the lease period of 10 and more years. The Company gradually assumed railway vehicles renovated pursuant to the lease contracts concluded in 2010, older contracts are still effective. Payables arising from finance leases are as follows:

(CZK thousand)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2011	**31 Dec 2010**	**1 Jan 2010**	**31 Dec 2011**	**31 Dec 2010**	**1 Jan 2010**
Less than 1 year	519,727	252,998	222,774	377,180	204,888	184,703
From 1 to 5 years	2,091,162	1,590,510	893,962	1,670,475	1,264,504	784,887
5 years and more	1,640,764	1,518,748	695,712	1,479,407	1,355,263	659,806
Total	**4,251,653**	**3,362,256**	**1,812,448**	**3,527,062**	**2,824,655**	**1,629,396**
Less future finance expenses	-724,591	-537,601	-183,052			
Present value of minimum lease payments	**3,527,062**	**2,824,655**	**1,629,396**	**3,527,062**	**2,824,655**	**1,629,396**
In the statement of financial position as:						
– short-term loans				*377,180*	*204,888*	*184,703*
– long-term loans				*3,149,882*	*2,619,767*	*1,444,693*
Total				**3,527,062**	**2,824,655**	**1,629,396**

The fair value of finance lease payables approximates their carrying amount.

The acquisition of fixed assets under finance leases is reported as a non-cash transaction in the statement of cash flows. The Company has decided to change the presentation of finance leases in the statement of cash flows included in the financial statements for the year ended 31 December 2011. Finance leases are not presented as a loan provided to purchase tangible assets according to the substance of the transaction but only according to the actual cash flow from financing. The amounts presented in the line 'Payments for property, plant and equipment' and 'Proceeds of loans and borrowings' were decreased by CZK 1,404,458 thousand in the comparative balances for 2010.

26 PROVISIONS

(CZK thousand)

	Balance at 1 Jan 2010	Charge	Use	Balance at 31 Dec 2010	Charge	Use	Balance at 31 Dec 2011
Provision for rents	10,653	11,223	10,653	11,223	0	3,001	8,222
Provision for legal disputes	26,687	275,601	26,687	275,601	5,917	12,680	268,838
Provision for outstanding vacation days	52,693	47,645	52,693	47,645	41,488	47,645	41,488
Provision for removal of the environmental burden	226,737	0	3,034	223,703	0	150,035	73,668
Provisions for employees benefits	448,475	109,292	162,279	395,488	81,873	238,256	239,105
Total provisions	**765,245**	**443,761**	**255,346**	**953,660**	**129,278**	**451,617**	**631,321**
– long-term	*501,265*			*469,358*			*150,439*
– short-term	*263,980*			*484,302*			*480,882*

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 Company 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 2.4%, 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.

The provision for the removal of the environmental burden is recognised for the clean-up of the locality in Brodek u Přerova. Following the selection of the contractor, the originally determined budget was decreased to CZK 74,395 thousand; CZK 62,984 thousand is paid from EU subsidies and CZK 727 thousand was already used. A provision was recognised in respect of these aggregate costs in the financial statements for the year ended 31 December 2011; the claim for the subsidy is reported under 'Other non-current assets'. The Company does not recognise provisions for other environmental burdens as it is unable to estimate the scope of these burdens and potential level of its share in their removal.

The provision for legal disputes amounts to CZK 254 million which relates to the fine from the Anti-Monopoly Office from 2007 for the breach of antimonopoly rules in freight transportation.

27 TRADE PAYABLES

(CZK thousand)

Year	Category	Before due date	Past due date (days) 1–30	31–90	91–180	181–365	365 and more	Total past due date	Total
31 Dec 2011	Short-term	5,265,847	23,014	29,264	18,336	2,796	2,752	76,162	**5,342,009**
31 Dec 2010	Short-term	5,148,777	450,386	6,916	15,455	5,189	6,507	484,453	**5,633,230**
1 Jan 2010	Short-term	5,146,958	504,878	354	-6,851	11,209	11,343	520,933	**5,667,891**

Supplier invoices typically mature in 90 days.

28 OTHER FINANCIAL LIABILITIES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Financial derivatives	44,520	0	0
Other	123,459	66,951	59,414
Total long-term	**167,979**	**66,951**	**59,414**
Liability arising upon the formation of ČD Cargo,a.s.	0	0	305,296
Financial derivatives	8,880	0	0
Other	29,179	19,578	-5,149
Total short-term	**38,059**	**19,578**	**300,147**
Total	**206,038**	**86,529**	**359,561**

29 OTHER LIABILITIES

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Total long-term	**0**	**0**	**0**
Received prepayments	172,727	149,779	138,110
Payables from the transition period (SŽDC-transformation)	34,715	435,865	435,865
Payables to employees	717,215	1,130,823	1,074,163
Social security and health insurance payables	214,046	363,267	371,591
Subsidies	0	0	30,063
Other	735,235	832,344	559,271
Total short-term	**1,873,938**	**2,912,078**	**2,609,063**
Total	**1,873,938**	**2,912,078**	**2,609,063**

The Company carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

30 RELATED PARTY TRANSACTIONS

30.1 INCOME GENERATED FROM RELATED PARTIES

(CZK thousand)

2011	Sale of inventories	Sale of services	Other income	Total
ČD – Telematika a. s.	3	19,133	70	19,206
Výzkumný Ústav Železniční, a. s.	2	2,186	3	2,191
DPOV, a.s.	168,823	56,276	1,945	227,044
ČD Cargo, a. s.	747,690	167,288	2,108	917,086
ČDT-Informační systémy, a.s.	0	0	4,743	4,743
JLV, a. s.	0	16,498	0	16,498
ČD Logistics, a.s.	0	647	0	647
Ostravská dopravní společnost, a.s.	0	0	3,008	3,008
Total	**916,518**	**262,028**	**11,877**	**1,190,423**

(CZK thousand)

2010	Sale of inventories	Sale of services	Other income	Total
ČD – Telematika a. s.	6	19,772	377	20,155
Traťová strojní společnost, a. s.	21,407	1,662	26	23,095
Výzkumný Ústav Železniční, a. s.	25	2,350	0	2,375
DPOV, a.s.	143,885	66,359	990	211,234
ČD Cargo, a. s.	756,218	183,644	5,866	945,728
JLV, a. s.	0	8,982	0	8,982
Total	**921,541**	**282,769**	**7,259**	**1,211,569**

30.2 PURCHASES FROM RELATED PARTIES

(CZK thousand)

2011	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	4,695	90,699	0	95,394
Výzkumný Ústav Železniční, a. s.	0	439	0	439
DPOV, a.s.	15,333	65,282	81	80,696
ČD Cargo, a.s.	2,459	26,880	233	29,572
ČDT-Informační systémy, a.s.	8,723	143,871	0	152,594
JLV, a. s.	0	104,850	0	104,850
ČD Logistics, a.s.	0	1,430	0	1,430
Ostravská dopravní společnost, a.s.	0	1,000	0	1,000
Total	**31,210**	**434,451**	**314**	**465,975**

(CZK thousand)

2010	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	15,432	265,013	5	280,450
Traťová strojní společnost, a. s.	0	0	0	0
Výzkumný Ústav Železniční, a. s.	18	1,341	0	1,359
DPOV, a.s.	23,105	26,603	193	49,901
ČD Cargo, a.s.	2,688	29,187	473	32,348
JLV, a. s.	0	127,929	0	127,929
Total	**41,243**	**450,073**	**671**	**491,987**

30.3 PURCHASES AND SALES OF FIXED ASSETS AND FINANCIAL ASSETS WITH RELATED PARTIES

(CZK thousand)

Sales	Intangible fixed assets 2011	Tangible fixed assets 2011	Intangible fixed assets 2010	Tangible fixed assets 2010
ČD - Telematika a. s.	0	133,800	0	0
Výzkumný Ústav Železniční, a. s.	438	0	0	0
DPOV, a.s.	0	5,252	0	18,632
ČD Cargo, a.s.	60	940	0	9,040
ČDT-Informační systémy, a.s.	0	0	0	0
JLV, a. s.	0	0	0	0
Total	**498**	**139,992**	**0**	**27,672**

Sales of fixed assets in 2011 in ČD - Telematika, a.s. included the sale of land of CZK 2,310 thousand and the sale of buildings of CZK 131,490 thousand.

(CZK thousand)

Sales	Intangible fixed assets 2011	Tangible fixed assets 2011	Intangible fixed assets 2010	Tangible fixed assets 2010
ČD - Telematika a. s.	15,631	68,600	52,655	1,421
DPOV, a.s.	0	873,014	0	731,664
ČD Cargo, a.s.	10	77	0	0
ČDT-Informační systémy, a.s.	21,459	0	0	0
Total	**37,100**	**941,691**	**52,655**	**733,085**

Purchases of fixed assets from DPOV, a.s. include the purchases of railway vehicle components – major periodical repairs.

30.4 OUTSTANDING BALANCES AT THE END OF THE REPORTING PERIOD

(CZK thousand)

31 Dec 2011	Receivables	Payables
ČD - Telematika a. s.	132,745	99,709
Výzkumný Ústav Železniční, a. s.	110	294
DPOV, a.s.	52,436	142,826
ČD Cargo, a.s.	261,183	5,504
JLV, a. s.	785	80
ČDT-Informační systémy, a.s.	42	76,483
ČD Logistics, a.s.	3	327
Ostravská dopravní společnost, a.s.	0	545
Total	**447,304**	**325,768**

(CZK thousand)

31 Dec 2010	Receivables	Payables
ČD - Telematika a. s.	5,902	131,308
Traťová strojní společnost, a. s.	0	0
Výzkumný Ústav Železniční, a. s.	351	815
DPOV, a.s.	65,652	298,249
ČD Cargo, a.s.	331,666	5,483
JLV, a. s.	801	26,425
Total	**404,372**	**462,280**

(CZK thousand)

1 Jan 2010	Receivables	Payables
ČD - Telematika a. s.	3,787	143,612
Traťová strojní společnost, a. s.	7,829	123
Výzkumný Ústav Železniční, a. s.	100	926
DPOV, a.s.	50,947	250,458
ČD Cargo, a.s.	123,490	316,784
JLV, a. s.	1,112	35,583
Total	**187,265**	**747,486**

Related party transactions were conducted on an arm's length basis reflecting the amount of purchased goods and relationships between parties.

Outstanding balances are not collateralised and are paid in cash. No guarantees were received or provided. In the reporting period and prior reporting periods, the Company reported no expenses relating to bad or doubtful receivables from related parties.

30.5 CONTRACTUAL OBLIGATIONS RELATING TO EXPENSES

As of the financial statements preparation date, the Company concluded contracts for the purchase of fixed assets, inventory and services with related parties:

(CZK thousand)

	31 Dec 2011
ČD - Telematika a. s.	780,616
Výzkumný Ústav Železniční, a. s.	1,962
DPOV, a.s.	30,061
ČD Cargo, a.s.	29,827
JLV, a. s.	21,092
Total	**863,558**

30.6 LOANS TO RELATED PARTIES

As of 31 December 2011, 31 December 2010 and 1 January 2010, the Company provided no loans to related parties.

30.7 KEY MANAGEMENT MEMBERS COMPENSATION

Directors and other members of key management received the following bonuses in the reporting period:

(CZK thousand)

	2011	2010
Short-term employee benefits	84,056	104,099
Post-employment benefits	0	0
Other long-term employees benefits	0	0
Total	**84,056**	**104,099**

In addition to the possibility of using reduced fares, the members of the Company's statutory and supervisory bodies were provided with cash bonuses of CZK 5,650 thousand and CZK 5,820 thousand in 2011 and 2010, respectively. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

30.8 TRANSACTIONS WITH SŽDC

The Company is wholly owned by the state. In accordance with the exemption listed in paragraphs 25 – 27 of IAS 24 (revised), the 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 Company's activities.

The Company secured the servicing of the railway route on behalf of the operator, SŽDC, s.o. before 31 August 2011. The contract for the servicing of railway routes was entered into in the summer of 2008 and was also applicable with its amendments in 2011.

The Company operates the railway route and it pays a fee in the amount of offer prices to SŽDC for the use of the railway route.

The expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2011 and 2010 were as follows:

(CZK thousand)

2011	Expenses	Income
Securing railway routes – management of operations	0	3,266,666
Maintenance of operability	0	0
Use of railway route and allocated capacity of the railway route	1,680,149	0
Consumed traction electricity	626,878	0
Other	126,119	0
Total	**2,433,146**	**3,266,666**

(CZK thousand)

2010	Expenses	Income
Securing railway routes – management of operations	0	5,194,373
Maintenance of operability	0	0
Use of railway route and allocated capacity of the railway route	1,444,051	0
Consumed traction electricity	944,578	0
Other	139,404	0
Total	**2,528,033**	**5,194,373**

Income from securing railway routes is reported under 'Revenue from principal operations' as part of discontinued 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 Company records receivables from and payables to SŽDC:

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Receivables	70,769	554,871	464,466
Payables	580,837	980,545	1,216,293
Estimated payables	21,507	20,303	27,003
Estimated receivables	0	9,172	8,053

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 thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Cash on hand and cash in transit	71,890	52,351	50,598
Cash at bank	1,761,036	117,261	724,586
Depository bills of exchange	0	0	1,200,000
Total	**1,832,926**	**169,612**	**1,975,184**

32 CONTRACTS FOR OPERATING LEASES

32.1 THE COMPANY AS A LESSEE

Assets under operating leases which are reported off balance sheet as of 31 December 2011, 31 December 2010 and 1 January 2010 amount to CZK 6,556 thousand, CZK 7,891 thousand and CZK 11,225 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 2011 and 2010 amounted to CZK 49,676 thousand and CZK 50,297 thousand, respectively.

The Company as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

32.2 THE COMPANY AS A LESSOR

Operating leases applies to investment property and movable assets held by the Company with various lease periods.

Revenue from the lease of property that the Company acquired in 2011 from investment property based on the operating leases amounts to CZK 550,535 thousand (2010: CZK 569,557 thousand).

Direct operating expenses relating to investment property for the period amounted to CZK 194,844 thousand (2010: CZK 211,573 thousand).
Income from operating leases of movable assets in 2011 amounts to CZK 62,416 thousand (2010: CZK 67,239 thousand).

The Company as a lessor concluded no irrevocable contracts for operating leases.

33 CONTRACTUAL OBLIGATIONS RELATING TO EXPENSES

As of the balance sheet date, the Company concluded contracts for the purchase of fixed assets in the amount of CZK 26,183 million, of which CZK 9,663 million relates to supplies agreed for 2012 and CZK 8,149 million relates to supplies agreed for the following years. The remaining amount of CZK 8,371 million was paid as of 31 December 2011. A significant part of the obligations relating to expenses (CZK 25,650 million) 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 8 December 2012; and
- Plzeň–Most railway track, in respect of the contract entitled "Ordered Transportation between Plzeň and Most", maturity on 8 December 2012, CZK 15 million.

In addition, a bank guarantee of CZK 51,860 thousand was issued with validity from 11 December 2011 to 8 December 2012. This is a guarantee for securing further continuous operations and potential coverage of damages of the orderer, resulting from the Contract for the Public Services in Passenger Railway Transportation in the Public Interest to provide for basic transportation services in part of the Liberec region for specific operations of the Jizera mountains railways ("Jizerskohorská železnice").

The 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 2011 was CHF 20,800 thousand (CZK 441,376 thousand). The likelihood that the Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Company's management.

The Company is the owner of the ČD Cargo trademark which it provided to its subsidiary for use. Between 2008 and 2010, the Company did not charge any licence fees to the user as the trademark was new on the market and it was necessary to invest significant funds in its establishment on the market. These expenses were incurred by the user. Starting from 2011, the Company intends to charge a licence fee to the user in the amount of CZK 95 million per year. The proposed licence agreement has not yet been formally approved by the representatives of both parties and not all legal objections of the user were removed. For this reason, the Company did not recognise the income, it treats the receivable in the above amount as a contingent asset.

35 FINANCIAL INSTRUMENTS

35.1 CAPITAL RISK MANAGEMENT

The Company 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 are regularly informed about the development of debt. Any additional debt is subject to approval by the Company's statutory bodies, ie the Board of Directors and the Supervisory Board.

In 2011, the Company significantly strengthened its capital structure, primarily through the funds obtained as a result of the first issue of eurobonds with a five-year maturity. By implementing this transaction, the Company established itself on the eurobond markets and issues of bonds will be used in the future as one of the principal sources of its long-term funding.

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 thousand)

Financial assets	31 Dec 2011	31 Dec 2010	1 Jan 2010
Cash and bank accounts	259,126	169,612	775,184
Financial derivatives used in hedge accounting	459,870	58,290	0
Held-to-maturity investments (term deposits and bills of exchange)	1,573,800	0	1,200,000
Loans and receivables	1,714,200	1,974,509	1,674,583
Available-for-sale financial assets	341,664	339,746	340,843
Total	**4,348,660**	**2,542,157**	**3,990,610**

(CZK thousand)

Financial liabilities	31 Dec 2011	31 Dec 2010	1 Jan 2010
Financial derivatives used in hedge accounting	53,400	0	0
Measured at amortised cost	26,485,805	18,476,749	15,350,394
Total	**26,539,205**	**18,476,749**	**15,350,394**

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 thousand)

Category of financial assets	2011	2010	Reported in the income statement line
Interest on cash in bank accounts	1,007	963	Other gains
Interest on investments held to maturity	16,141	2,407	Other gains
(term deposits and bills of exchange)	7,240	28,677	Other gains
Dividends from available-for-sale financial assets	**24,388**	**32,047**	

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 Company'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 Company 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 Company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation, received loans and issued bonds. The Company seeks to maintain the proportion of long-term funding in the foreign currency unhedged against the currency risk at the maximum level of 50%.

The carrying amounts of the Company's foreign currency denominated financial assets and financial liabilities at the end of the reporting period are as follows:

(CZK thousand)

31 Dec 2011	EUR	USD	Other	Total
Financial assets	2,558,329	32,900	1,815	2,593,044
Financial liabilities	-13,959,157	-342	-445	-13,959,944
Total	**-11,400,828**	**32,558**	**1,370**	**-11,366,900**

(CZK thousand)

31 Dec 2010	EUR	USD	Other	Total
Financial assets	582,417	650	1,266	584,333
Financial liabilities	-6,116,566	0	-487	-6,117,053
Total	**-5,534,149**	**650**	**779**	**-5,532,720**

(CZK thousand)

1 Jan 2010	EUR	USD	Other	Total
Financial assets	652,432	171	1,000	653,603
Financial liabilities	-6,852,124	0	-464	-6,852,588
Total	**-6,199,692**	**171**	**536**	**-6,198,985**

35.5.1 Foreign Currency Sensitivity Analysis

The exposure to currency risks is measured by a sensitivity analysis. The Company 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 thousand)

	2011	2010
Translation of unhedged items denominated in foreign currencies at the end of the period	457,130	220,765
Change in the fair value of derivatives at the end of the period	-245,518	0
Total impact on the profit for the period	**211,612**	**220,765**
Change in the fair value of derivatives at the end of the period	-27,699	-2,635
Total impact on other comprehensive income	**-27,699**	**-2,635**

35.5.2 Cross-currency Interest Rate Swaps

Given the Company's overall strategy in managing the interest rate and currency risks, the risk management policies require the minimisation of the exposure (in respect of the changes in the amount) of cash flows arising from the Company's business activities and the fair values of its foreign currency denominated assets and liabilities. In accordance with these requirements, the Company has entered into a cross-currency interest rate swap which reduces the risk of the change in the future cash flows resulting from the bond funding in EUR and the risk of the change in the fair value of those bonds.

The table shows the terms of contracts for cross-currency interest rate swaps that were opened at the end of the reporting period. The Company had no contracts for cross-currency interest rate swaps as of 31 December 2010 and 1 January 2010:

31 Dec 2011	Nominal value (EUR thousand)	Collected interest rate (annual)	Nominal value (CZK thousand)	Average paid interest rate (annual)	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	240,000	4.5%	-5,827,715	4.23%	27,265
1 to 5 years	240,000	4.5%	-5,827,715	4.23%	414,331
5 years and more	0	–	0	–	0
Total					**441,596**

The exchanges of payments under the cross-currency interest rate swaps and coupon payments from issued bonds occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the coupon payments from the issued bonds affect the profit or loss.

35.6 INTEREST RATE RISK MANAGEMENT

The Company is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Company manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing, ie the proportion of long-term external sources of funding with floating interest rates should not exceed the maximum level of 50%.

Concurrently, the Company 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 Company 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 thousand)

	2011	2010
Interest from loans and lease with variable rate for the period	-5,002	-2,873
Change in the present value of long-term provisions at the end of the period	18,488	30,312
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**13,486**	**27,439**
Change in the fair value of derivatives at the end of the period	86,722	114,286
Total impact on other comprehensive income	**86,722**	**114,286**

35.6.2 Interest Rate Swap Contracts

Based on interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company 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 1 January 2010, the Company concluded no interest rate swap contracts.

	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand as of 31 December 2011	Fair value of assets (liabilities) in CZK thousand as of 31 December 2010
Less than 1 year	2.43%	60 mil. EUR	-8,880	0
1 to 5 years	2.43%	60 mil. EUR	-44,862	17,564
5 years and more	2.43%	60 mil. EUR	342	17,397
Total			**-53,400**	**34,961**

The Company 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 Company 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 Company. The Company 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 Company 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 Company 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 thousand)

	2011	2010
Costs of oil consumption for the period	-107,299	-93,628
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**-107,299**	**-93,628**
Change in the fair value of derivatives at the end of the period	10,627	17,964
Total impact on other comprehensive income	**10,627**	**17,964**

35.7.2 Commodity Derivatives

The table shows outstanding commodity contracts for the purchase of oil as of:

Purchase of oil	Hedged range (USD/mt)	Volume of contracts (mt)	Fair value (CZK thousand)
31 Dec 2011	635–820	5,501	18,274
31 Dec 2010	580–820	7,663	22,017
1 Jan 2010	–	0	0

35.8 CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

The concentration of the Company's credit risk is low as a significant portion of the Company's revenues (passenger transportation fare) is collected in cash. In other transactions, the Company seeks to deal only with creditworthy counterparties whom the Company reviews on an ongoing basis using publicly available information. The maximum unhedged exposure to one counterparty is determined at CZK 50 million. The Company'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 Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages its liquidity risk via an established bill-of-exchange programme and agreed overdraft loans and by continuously monitoring forecasted and actual cash flows. In order to minimise the risk of insufficient operating funding, the Company concludes binding lending limits with banks with the minimum period of 12 months.

The Company's short-term liabilities significantly exceed its short-term assets as of 31 December 2011. The reason predominantly relates to the urgent necessity for capital expenditure and the use of easily available short-term funds for this purpose. The Company 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 Company anticipates further increasing its long-term funds.

35.9.1 Liquidity and Interest Rate Risk Tables

The following tables detail the Company'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 Company 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 will differ from determined estimates. The contractual maturity is based on the earliest date on which the Company may be required to pay.

(CZK thousand)

31 Dec 2011	Less than 1 month	1–3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1,809,987	2,896,246	667,307	39,119	81,988	5,494,647
Derivatives	0	0	8,880	44,863	-343	53,400
Finance lease liabilities	41,804	84,813	393,110	2,091,162	1,640,764	4,251,653
Variable interest rate instruments	0	25,269	328,269	4,189,299	777,741	5,320,578
Fixed interest rate instruments	515,000	1,110,000	3,387,292	9,074,946	0	14,087,238
Total	**2,366,791**	**4,116,328**	**4,784,858**	**15,439,389**	**2,500,150**	**29,207,516**

(CZK thousand)

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	2,215,411	2,999,092	453,067	20,819	31,370	5,719,759
Finance lease liabilities	18,515	39,025	195,458	1,590,510	1,518,748	3,362,256
Variable interest rate instruments	888	12,708	1,049,606	3,641,756	1,523,590	6,228,548
Fixed interest rate instruments	50,000	2,014,000	104,932	2,077,480	0	4,246,412
Total	**2,284,814**	**5,064,825**	**1,803,063**	**7,330,565**	**3,073,708**	**19,556,975**

(CZK thousand)

1 Jan 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	1,988,794	3,005,684	998,883	40,397	24,667	6,058,425
Finance lease liabilities	18,650	37,260	166,864	893,962	695,712	1,812,448
Variable interest rate instruments	2,151	18,619	345,513	2,970,431	2,826,139	6,162,853
Fixed interest rate instruments	0	0	100,000	2,165,968	0	2,265,968
Total	**2,009,595**	**3,061,563**	**1,611,260**	**6,070,758**	**3,546,518**	**16,299,694**

The following tables present the Company'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 thousand)

31 Dec 2011	Less than 1 month	1–3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	984,718	353,930	513,068	14,205	341,694	2,207,615
Finance lease assets	3,794	0	67	24,376	438,706	466,943
Fixed interest rate instruments	1,573,800	0	0	0	0	1,573,800
Hedging derivatives	5,031	2,084	37,258	415,497	0	459,870
Total	**2,567,343**	**356,014**	**550,393**	**454,078**	**780,400**	**4,708,228**

(CZK thousand)

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	824,193	843,496	356,582	606	344,935	2,369,812
Finance lease assets	3,550	0	157	24,823	456,402	484,932
Fixed interest rate instruments	0	0	0	0	0	0
Hedging derivatives	3,064	1,501	10,932	25,396	17,397	58,290
Total	**830,807**	**844,997**	**367,671**	**50,825**	**818,734**	**2,913,034**

(CZK thousand)

1 Jan 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	1,099,797	744,612	487,952	496	340,843	2,673,700
Finance lease assets	3,503	0	10,418	14,561	470,331	498,813
Fixed interest rate instruments	401,623	801,591	0	0	0	1,203,214
Total	**1,504,923**	**1,546,203**	**498,370**	**15,057**	**811,174**	**4,375,727**

35.9.2 Financing Facilities

The Company has access to the below loan facilities:

(CZK thousand)

	31 Dec 2011	31 Dec 2010	1 Jan 2010
Overdraft loan facilities:			
– amount of the loan facility	*1,550,000*	*1,550,000*	*1,550,000*
– amount unused	*1,550,000*	*826,117*	*1,018,107*
Bills-of-exchange programme:			
– amount of the loan facility	*5,000,000*	*5,000,000*	*0*
– amount unused	*2,443,427*	*2,936,000*	*0*

35.10 FAIR VALUE OF FINANCIAL INSTRUMENTS

35.10.1 Fair Values of Financial Instruments Carried at Amortised Cost

Management of the Company 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
- 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 Company as of 31 December 2011, 31 December 2010 and 1 January 2010 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 thousand)

	Available-for-sale financial assets	Derivatives	Total
Balance at 1 Jan 2010	**340,843**	**0**	**340,843**
Total gains (losses) from revaluation	0	58,290	58,290
– in profit or loss	*0*	*1,312*	*1,312*
– in other comprehensive income	*0*	*56,978*	*56,978*
Purchases	4,092	0	4,092
Sales/settlement	-5,189	0	-5,189
Balance at 31 Dec 2010	**339,746**	**58,290**	**398,036**
Total gains (losses) from revaluation	0	363,677	363,677
– in profit or loss	*0*	*380,967*	*380,967*
– in other comprehensive income	*0*	*-17,290*	*-17,290*
Purchases	3,920	0	3,920
Sales/settlement	-2,002	-15,497	-17,499
Balance at 31 Dec 2011	**341,664**	**406,470**	**748,134**

36 POST BALANCE SHEET EVENTS

The Company has put up a tender to select an operator of buffet cars for the following four years.

The Supervisory Boards of České dráhy, a. s. and ČD – Telematika a. s. approved the intention to sell ČDT - Informační Systémy, a.s. As of 29 February 2012, the process of transferring the shares of ČDT - Informační Systémy, a.s. from the original owner, ČD – Telematika a. s., to the acquirer, České dráhy, a. s., was completed. The transfer involved the shares representing 100% of the entity's share capital.

No other significant events occurred subsequent to the balance sheet date.

37 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 10 April 2012.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 Financial Statements

THESE FINANCIAL STATEMENTS WERE PREPARED ON 10 APRIL 2012

STATUTORY BODY OF THE REPORTING ENTITY

Petr Žaluda
Chairman of the Board of Directors and CEO

BALANCE SHEET FULL VERSION

(CZK thousand)

As of 31 Dec 2011		31 Dec 2011 Gross	31 Dec 2011 Adjustment	31 Dec 2011 Netto	31 Dec 2010 Net
	TOTAL ASSETS	**100,291,748**	**-34,703,368**	**65,588,380**	**58,392,565**
B.	**Fixed assets**	**93,771,615**	**-34,603,204**	**59,168,411**	**54,495,283**
B.I.	**Intangible fixed assets**	**2,976,552**	**-2,628,607**	**347,945**	**414,706**
B.I.2.	Research and development	95,907	-95,907	0	520
B.I.3.	Software	494,573	-460,788	33,785	102,082
B.I.4.	Valuable rights	2,249,682	-2,071,152	178,530	179,910
B.I.6.	Other intangible fixed assets	760	-760	0	
B.I.7.	Intangible fixed assets under construction	135,630	0	135,630	132,194
B.II.	**Tangible fixed assets**	**80,002,267**	**-31,969,408**	**48,032,859**	**43,414,791**
B.II.1.	Land	6,283,531	-3,860	6,279,671	6,389,966
B.II.2.	Structures	17,341,935	-8,522,376	8,819,559	8,886,809
B.II.3.	Individual movable assets and sets of movable assets	50,837,206	-23,443,038	27,394,168	24,202,209
B.II.6.	Other tangible fixed assets	4,153	-134	4,019	3,758
B.II.7.	Tangible fixed assets under construction	1,261,299		1,261,299	913,767
B.II.8.	Prepayments for tangible fixed assets	4,274,143		4,274,143	3,018,282
B.III.	**Non-current financial assets**	**10,792,796**	**-5,189**	**10,787,607**	**10,665,786**
B.III.1.	Equity investments in subsidiaries	10,359,174		10,359,174	10,242,595
B.III.2.	Equity investments in associates	160,593		160,593	155,443
B.III.3.	Other securities and investments	273,029	-5,189	267,840	267,748
C.	**Current assets**	**6,381,101**	**-100,164**	**6,280,937**	**3,815,333**
C.I.	**Inventories**	**1,515,129**	**-7,786**	**1,507,343**	**1,717,359**
C.I.1.	Material	1,510,814	-7,786	1,503,028	1,708,941
C.I.2.	Work in progress and semifinished goods	92		92	1,450
C.I.5.	Goods	3,985		3,985	3,824
C.I.6.	Prepayments for inventory	238		238	3,144
C.II.	**Long-term receivables**	**453,979**	**-21,982**	**431,997**	**61,712**
C.II.5.	Long-term prepayments made	2,247		2,247	2,502
C.II.7.	Other receivables	451,732	-21,982	429,750	59,210
C.III.	**Short-term receivables**	**2,579,067**	**-70,396**	**2,508,671**	**1,866,650**
C.III.1.	Trade receivables	971,741	-65,044	906,697	648,142
C.III.6.	State - tax receivables	713,680		713,680	377,188
C.III.7.	Short-term prepayments made	121,596		121,596	130,621
C.III.8.	Estimated receivables	638,420		638,420	638,393
C.III.9.	Other receivables	133,630	-5,352	128,278	72,306
C.IV.	**Current financial assets**	**1,832,926**	**0**	**1,832,926**	**169,612**
C.IV.1.	Cash on hand	71,890		71,890	52,351
C.IV.2.	Cash at bank	187,236		187,236	117,261
C.IV.3.	Short-term securities and investments	1,573,800		1,573,800	
D.I.	**Other assets**	**139,032**	**0**	**139,032**	**81,949**
D.I.1.	Deferred expenses	137,498		137,498	81,319
D.I.3.	Accrued income	1,534		1,534	630

(CZK thousand)

		31 Dec 2011	31 Dec 2010
	TOTAL LIABILITIES & EQUITY	**65,588,380**	**58,392,565**
A	**Equity**	**40,697,701**	**40,615,006**
A.I.	**Share capital**	**20,000,000**	**20,000,000**
A.I.1.	Share capital	20,000,000	20,000,000
A.II.	**Capital funds**	**20,479,456**	**20,561,591**
A.II.1.	Share premium	15,900,424	16,070,073
A.II.2.	Other capital funds	-920,094	-921,182
A.II.3.	Gains or losses from the revaluation of assets and liabilities	5,499,126	5,412,700
A.III.	**Statutory funds**	**224,153**	**211,260**
A.III.1.	Statutory reserve fund / Indivisible fund	92,887	92,420
A.III.2.	Statutory and other funds	131,266	118,840
A.IV.	**Retained earnings**	**-167,190**	**-167,190**
A.IV.2.	Accumulated losses brought forward	-167,190	- 167,190
A.V.	**Profit or loss for the current period (+ -)**	**161,282**	**9,345**
B.	**Liabilities**	**24,341,560**	**17,516,816**
B.I.	**Reserves**	**409,232**	**365,343**
B.I.4.	Other reserves	409,232	365,343
B.II.	**Long-term liabilities**	**12,164,927**	**6,201,801**
B.II.1.	Trade payables	123,459	66,951
B.II.6.	Bonds issued	7,740,000	2,000,000
B.II.9.	Other payables	4,301,468	4,134,850
B.III.	**Short-term liabilities**	**8,417,686**	**7,134,599**
B.III.1.	Trade payables	4,691,535	4,776,995
B.III.5.	Payables to employees	437,507	833,453
B.III.6.	Social security and health insurance payables	214,046	363,267
B.III.7.	State - tax payables and subsidies	83,815	131,238
B.III.8.	Short-term prepayments received	172,727	149,779
B.III.9.	Bonds issued	2,000,000	
B.III.10.	Estimated payables	807,050	876,825
B.III.11.	Other payables	11,006	3,042
B.IV.	**Bank loans and borrowings**	**3,349,715**	**3,815,073**
B.IV.1.	Long-term bank loans	528,761	770,392
B.IV.2.	Short-term bank loans	264,381	980,681
B.IV.3	Short-term borrowings	2,556,573	2,064,000
C.I.	**Other liabilities**	**549,119**	**260,743**
C.I.1.	Accrued expenses	356,381	69,612
C.I.2.	Deferred income	192,738	191,131

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(CZK thousand)

		Year ended 31 Dec 2011	Year ended 31 Dec 2010
I.	Sales of goods	14,209	13,796
A.	Costs of goods sold	10,048	12,326
+	**Gross margin**	**4,161**	**1,470**
II.	Production	11,326,657	13,068,685
II.1.	Sales of own products and services	11,117,469	12,855,585
II.2.	Change in internally produced inventory	-1,358	1,449
II.3.	Own work capitalised	210,546	211,651
B.	Purchased consumables and services	11,853,071	11,754,527
B.1.	Consumed material and energy	4,679,846	4,643,475
B.2.	Services	7,173,225	7,111,052
+	**Added value**	**-522,253**	**1,315,628**
C.	Staff costs	10,614,935	13,058,322
C.1.	Payroll costs	7,676,321	9,531,408
C.2.	Remuneration to members of statutory bodies	5,650	5,820
C.3.	Social security and health insurance costs	2,520,743	3,034,310
C.4.	Social costs	412,221	486,784
D.	Taxes and charges	44,295	49,701
E.	Depreciation of intangible and tangible fixed assets	2,217,244	2,064,559
III.	Sales of fixed assets and material	2,022,796	2,098,164
III.1.	Sales of fixed assets	1,021,984	1,097,345
III.2.	Sales of material	1,000,812	1,000,819
F.	Net book value of fixed assets and material sold	1,227,295	1,419,566
F.1.	Net book value of sold fixed assets	294,250	485,765
F.2.	Book value of sold material	933,045	933,801
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-400,720	-24,833
IV.	Other operating income	12,757,349	13,017,009
H.	Other operating expenses	295,593	414,930
*	**Operating profit or loss**	**259,250**	**-551,444**
VI.	Proceeds from the sale of securities and investments		600,400
J.	Cost of securities and investments sold		287,483
VII.	Income from non-current financial assets	83,267	67,686
VII.3.	Income from other non-current financial assets	83,267	67,686
VIII.	Income from current financial assets	16,141	2,407
M.	Change in reserves and provisions relating to financial activities		5,189
X.	Interest income	1,008	963
N.	Interest expenses	301,140	95,800
XI.	Other financial income	409,960	356,038
O.	Other financial expenses	572,712	70,788
*	**Financial profit or loss**	**-363,476**	**568,234**
Q.	Income tax on ordinary activities	-281	1,999
Q.1.	- due	-281	1,999
**	**Profit or loss from ordinary activities**	**-103,945**	**14,791**
XIII.	Extraordinary income	389,940	
R.	Extraordinary expenses	124,713	**5,446**
*	**Extraordinary profit or loss**	**265,227**	**-5,446**
***	**Profit or loss for the current period (+/-)**	**161,282**	**9,345**
****	**Profit or loss before tax**	**161,001**	**11,344**

STATEMENT OF CHANGES IN EQUITY

(CZK thousand)

Year ended 31 Dec 2011	Share capital	Share premium	Other capital funds	Gains or losses from the revaluation of assets and liabilities	Statutory reserve fund	Statutory and other funds from profit	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 Dec 2009	**20,000,000**	**16,256,957**	**-919,193**	**5,405,566**	**92,420**	**119,954**	**896,145**		**-1,063,335**	**40,788,514**
Distribution of profit or loss							-896,145	-167,190	1,063,335	
Creation of the social fund with a charge against share premium		-186,884				186,884				
Creation of the social fund - other						10,367				10,367
Use of the social fund						-198,365				-198,365
Revaluation of non-current financial assets				-49,844						-49,844
Revaluation of derivatives				56,978						56,978
Profit or loss for the current period									9,345	9,345
Other			-1,989							-1,989
Balance at 31 Dec 2010	**20,000,000**	**16,070,073**	**-921,182**	**5,412,700**	**92,420**	**118,840**		**-167,190**	**9,345**	**40,615,006**
Distribution of profit or loss					467	8,878			-9,345	
Creation of the social fund with a charge against share premium		-169,649				169,649				
Creation of the social fund - other						497				497
Use of the social fund						-166,598				-166,598
Revaluation of non-current financial assets				117,901						117,901
Revaluation of derivatives				-31,475						-31,475
Profit or loss for the current period									161,282	161,282
Other			1,088							1,088
Balance at 31 Dec 2011	**20,000,000**	**15,900,424**	**-920,094**	**5,499,126**	**92,887**	**131,266**		**-167,190**	**161,282**	**40,697,701**

CASH FLOW STATEMENT

(CZK thousand)

		Year ended 31 Dec 2011	Year ended 31 Dec 2010
P.	**Opening balance of cash and cash equivalents**	169,612	1,975,184
	Cash flows from principal operations (operating activities)		
Z.	Profit or loss from ordinary activities before tax	-104,226	16,791
A.1.	Adjustments for non-cash transactions	**1,709,296**	**942,413**
A.1.1.	Depreciation of fixed assets	2,217,244	2,064,559
A.1.2.	Change in provisions and reserves	-400,720	-24,833
A.1.3.	Profit/(loss) on the sale of fixed assets	-727,734	-924,497
A.1.4.	Revenues from dividends and profit shares	-83,267	-67,686
A.1.5.	Interest expense and interest income	423,547	94,837
A.1.6.	Adjustments for other non-cash transactions	280,226	-199,967
A.*	**Net operating cash flow before changes in working capital**	**1,605,070**	**959,204**
A.2.	Change in working capital	**-1,485,756**	**-335,146**
A.2.1.	Change in operating receivables and other assets	-319,239	-480,154
A.2.2.	Change in operating payables and other liabilities	-1,311,580	210,451
A.2.3.	Change in inventories	145,063	-65,443
A.**	**Net cash flow from operations before tax and extraordinary items**	**119,314**	**624,058**
A.3.	Interest paid	-315,399	-76,565
A.4.	Interest received	1,008	963
A.5.	Income tax paid from ordinary operations	281	-2,356
A.6.	Receipts and expenditures relating to extraordinary activities	179,940	-5,446
A.7.	Received dividends and profit shares	83,267	67,686
A.***	**Net operating cash flows**	**68,411**	**608,340**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-6,000,510	-6,396,728
B.2.	Proceeds from fixed assets sold	839,026	1,697,745
B.***	**Net investment cash flows**	**-5,161,484**	**-4,698,983**
	Cash flows from financial activities		
C.1.	Change in payables from financing	6,921,135	2,483,333
C.2.	Impact of changes in equity	-164,748	-198,262
C.2.3.	Other cash contributions made by partners	58	101
C.2.5.	Payments from capital funds	-164,806	-198,363
C.***	**Net financial cash flows**	**6,756,387**	**2,285,071**
F.	**Net increase or decrease in cash and cash equivalents**	**1,663,314**	**-1,805,572**
R.	**Closing balance of cash and cash equivalents**	**1,832,926**	**169,612**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. GENERAL INFORMATION

1.1. BACKGROUND INFORMATION

České dráhy, a.s. (hereinafter the '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 Company's registered office is located at nábř. L. Svobody 1222, Prague 1.

The Company's share capital is CZK 20,000,000 thousand.

The financial statements have been prepared as of and for the year ended 31 December 2011. The reporting period is the calendar year, i.e. from 1 January 2011 to 31 December 2011.

The sole shareholder of the Company is the Czech Republic.

1.2. PRINCIPAL OPERATIONS

Since 1 December 2007, the Company has been principally engaged in operating railway passenger transportation. Other activities of the Company predominantly include the administration of immovable assets (railway station buildings and other). In addition, the Company is engaged in other activities relating to its principal business activities.

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.

As of 1 July 2008, the Company sold part of its business to SŽDC. For this reason, the Company ceased to secure the operability of the railway route but it continued in its servicing. As of 1 September 2011, the Company sold the "Servicing of the Railway Route" business part to SŽDC. The sale of the business part is disclosed in Note 1.6.

1.3. ORGANISATIONAL STRUCTURE

The Company is organised into sections overseen directly by the Company's Chief Executive Officer (CEO) or Deputy CEOs, being:

- The section of the Company's CEO;
- The section of the Company's Deputy CEO for Human Resources;
- The section of the Company's Deputy CEO for Finance;
- The section of the Company's Deputy CEO for Passenger Transportation;
- The section of the Company's Deputy CEO for Administration of Assets; and
- The section of the Company's Deputy CEO for Sales and Marketing.

1.4. THE COMPANY'S BODIES

The 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 COMPANY'S BODIES AS OF 31 DECEMBER 2011

	Position	Name
STEERING COMMITTEE	Chairman	Ivo Vykydal
	Vice Chairman	Jakub Hodinář
	Member	Lukáš Hampl
	Member	Michael Hrbata
	Member	Michal Janeba
	Member	Miloslav Müller
	Member	Petr Polák

On 21 April 2011, Radek Šmerda resigned from the position of Chairman of the Steering Committee. Through its Resolution No. 318 dated 27 April 2011, the Government of the Czech Republic appointed Ivo Vykydal as Chairman of the Steering Committee.

On 31 January 2012, the position of the member of the Steering Committee, Petr Polák, expired.

	Position	Name
BOARD OF DIRECTORS	Chairman	Petr Žaluda
	First Vice-Chairman	Vladimír Bail
	Member	Michal Nebeský
	Member	Jiří Kolář
	Member	Ctirad Nečas

At its meeting on 9 November 2011, the Supervisory Board recalled Milan Matzenauer and Antonín Blažek from their positions of members of the Board of Directors with immediate effect. On the same date, the Supervisory Board appointed Vladimír Bail as the first Vice Chairman of the Board of Directors and Ctirad Nečas as a member of the Board of Directors with immediate effect.

	Position	Name
SUPERVISORY BOARD	Chairman	Lukáš Hampl
	Member	Daniel Bartek
	Member	Michael Hrbata
	Member	Antonín Leitgeb
	Member	Miroslav Nádvorník
	Member	Jaroslav Pejša
	Member	Martin Riegl
	Member	Ivo Toman
	Member	Vladislav Vokoun

At its meeting on 28 April 2011, the Supervisory Board discussed the resignation of Radek Šmerda and discontinued his membership in the Supervisory Board through Resolution No. 1415 dated 28 April 2011. The term of office of Jan Bittner expired on 4 May 2011 in accordance with the Articles of Association of the Company. Jaroslav Pejša was appointed a member of the Supervisory Board in the election held on 26 April to 29 April 2011. His function originated on 5 May 2011. At its meeting held on 19 August 2011, the Steering Committee recalled Zdeněk Prosek from the position of a member of the Supervisory Board with immediate effect and appointed Ivo Toman and Martin Riegl as members of the Supervisory Board with immediate effect. At its meeting held on 7 October 2011, the Steering Committee recalled Jaroslav Palas from the position of a member of the Supervisory Board and appointed Daniel Bartek a member of the Supervisory Board with effect from 8 October 2011.

Through its Resolution No. 1495, the Supervisory Board established the Remuneration Committee of České dráhy, acting as a sub-committee of the Supervisory Board, on 8 September 2011.

	Position	Name
REMUNERATION COMMITTEE	Chairman	Ivo Toman
	Member	Miroslav Nádvorník
	Member	Martin Riegl

In relation to the change in the Commercial Code and the related changes in the Act on Auditors and according to the provisions of Section D in the Company's Articles of Association, the Company established the Audit Committee.

	Position	Name
AUDIT COMMITTEE	Chairman	Miroslav Zámečník
	Member	Michael Hrbata
	Member	Zdeněk Prosek

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 fulfilling the management role in the Company's risk management system.

	Position	Name
RISK MANAGEMENT COMMITTEE	Chairman	Petr Vohralík
	Member	Antonín Blažek
	Member	Jaroslav Král
	Member	Michal Nebeský

1.5. FORMATION AND INCORPORATION OF THE 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 Company 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.

SŽDC largely assumed the assets comprising railway routes while the 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 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. SALE OF PART OF THE COMPANY'S BUSINESS

As of 1 July 2008, a contract for the sale of part of the business between the Company and SŽDC was entered into.
The selling price stated in the contract for the sale of part of the Company's business was CZK 11,852,101 thousand based on an expert's valuation. The sale involved part of the railway route the operability of which had been provided for by České dráhy until then.

In the year ended 31 December 2010, SŽDC, s.o. used a discount from the purchase price for asset items, the ownership right of which was not transferred to SŽDC in the amount of CZK 5,446 thousand.

As of 1 September 2011, the Company concluded another contract for the sale of the business part between České dráhy, a.s. and Správa železniční dopravní cesty, s.o. The sale involved railway route servicing, ie the remaining activities that cover the railway route operation (the activities of train guards, dispatchers, signalists, etc). As of 1 September 2011, 9,326 employees were transferred to SŽDC.

The selling price stated in the contract for the sale of part of the Company's business was CZK 389,940 thousand based on an expert's valuation.

2. ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

The financial statements are prepared and presented in accordance with Accounting Act 563/1991 Coll., as amended, and Regulation 500/2002 Coll., which provides implementation guidance on certain provisions of Accounting Act 563/1991, as amended, for reporting entities that are businesses maintaining double-entry accounting records, as amended, and Czech Accounting Standards for Businesses, as amended.

The accounting books and records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis with certain exceptions as described in Note 3.2, the accruals principle, the prudence concept and the going concern assumption. The assets and liabilities assumed by the Company as of 1 January 2003 under Act 77/2002 Coll., as amended, were entered into the Company's books and records at their book values.

These financial statements are presented in thousands of Czech crowns (CZK '000), unless stated otherwise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand (tangible assets except for land, buildings and constructions) and CZK 60 thousand (intangible assets) on an individual basis. Land, buildings and constructions are treated as fixed assets irrespective of their cost valuation.

Intangible fixed assets are valued at acquisition cost. The Company's logo is valued at the price determined by an independent appraiser.

Land acquired prior to 1992 is stated at a value prescribed by the regulation issued by the Finance Ministry ruling at the date of acquisition of assets. Land acquired after 1992 is valued at acquisition cost.

Other tangible fixed assets are stated at acquisition cost. The acquisition cost includes interest on loans provided to fund the acquisition of assets before commencement of their use and other costs attributable to their acquisition.

Tangible and intangible assets produced and generated internally by the Company are stated at the cost of production comprising direct costs and an element of production and/or administrative overheads.

Tangible assets with an acquisition cost greater than CZK 1,000.01 but less than CZK 40 thousand and intangible assets with an acquisition cost of less than CZK 60 thousand are expensed in the period of acquisition and are maintained only in the underlying operational records.

The cost of fixed asset improvements exceeding CZK 40 thousand for the period increases the acquisition cost of the related fixed asset.

Replacement costs are used in valuing gifts and assets identified based on physical inventory which were not previously recorded in the accounting books and records.

The acquisition cost of assets acquired subsequent to 1 January 2003 is reduced to reflect the amount of the grant received to finance the acquisition of the asset.

The assets acquired under finance or operating lease agreements (and related liabilities) are not recorded on the balance sheet according to the applicable accounting regulations. Costs incurred in respect of finance and operating leases are charged to the profit and loss account in the period to which they relate on an accruals basis.

Depreciation and amortisation is calculated on a straight line basis over the estimated useful economic lives of the fixed assets. The estimated useful economic lives for the major categories of assets are as follows:

	Number of years
Buildings	30–50
Constructions	20–50
Railway vehicles	20–30
Machinery and equipment	8–20
Intangible assets	1,5–6

At the balance sheet date, the Company recognises provisions against fixed assets on the basis of an assessment of the fair values of individual components or groups of assets.

3.2. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments in subsidiaries and associates, long-term securities and debt securities with maturity exceeding one year, long-term securities and debt securities with maturity exceeding 1 year, provided long-term loans and loans to subsidiaries and associates.

Upon acquisition, securities and equity investments are carried at cost. Equity investments that were acquired in exchange for the non-cash contribution invested in the company are valued at the carrying value of the non-cash investment.

At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as 'Equity investment in subsidiaries'.

Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their operations are treated as 'Equity investments in associates.'

Equity investments in subsidiaries and associates have been recorded at the value established using the equity method of accounting. The equity investment is revalued at the balance sheet date to reflect the value equivalent to the Company's proportion of a subsidiary/associate's equity.

Other non-current financial assets have been valued at cost reduced by provisions.

3.3. INVENTORY

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.

Inventory produced internally is valued at the internal costs of production including direct costs and an element of production overheads.

Inventory is issued out of stock at costs determined using the weighted arithmetic average method.

Inventory identified during the stock count and previously unrecorded in the accounting records, inventory originating from excess material from the disposal or repairs of fixed assets or any possible donations are stated at replacement cost.

At the balance sheet date, provisions are made against inventory on the basis of stock taking results. Each type of inventory is assigned a percentage indicating the estimated temporary impairment due to the likelihood of this inventory not being usable for the Company's internal purposes or being disposed of at a price lower than cost.

3.4. RECEIVABLES

Upon origination, receivables are stated at their nominal value. Receivables acquired through assignment are carried at cost.

Receivables due within one year from the balance sheet date are reported as short-term balances. Other receivables are recorded as long-term.

At the balance sheet date, the Company records provisions based on an individual assessment of a receivable and provisions of 20 percent against receivables that are past due by greater than six months, full provisions against receivables that are past due their dates by greater than 12 months and their balance does not exceed CZK 30 thousand and, full provisions against receivables registered for recovery under bankruptcy and settlement proceedings and receivables where court proceedings against the relevant debtor have been initiated. The Company does not recognise provisions against receivables from its subsidiaries and SŽDC, s. o.

3.5. PAYABLES

Upon origination, payables are stated at their nominal value. Payables acquired through assignment are carried at cost.

Payables due within one year from the balance sheet date are reported as short-term balances. Other payables are recorded as long-term.

3.6. LOANS

Loans are stated at their nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans. Other loans are included in long-term loans.

Borrowing costs arising from loans attributable to the acquisition, construction or production of fixed assets are accrued until the inclusion of assets are capitalised as part of the cost of such assets. All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

3.7. EQUITY

On 31 March 2002, the date of the Company's formation, the contribution to the Company involved assets specified in the Establishment Deed, predominantly composed of tangible fixed assets at their original book values. The value of these assets stated in the Establishment Deed as of the Company's formation date was reported as the Company's share capital and share premium.

The change in the value of the assets comprising the contribution between the formation date of the Company and its incorporation date as of 1 January 2003 was reported as a component of other capital funds. As of the incorporation date, pursuant to the Transformation Act, the Company assumed not only the assets that comprised the contribution but also other assets and liabilities. The aggregate net value of these other assets and liabilities was also reported as a component of other capital funds. Given that the aggregate net value of assets and liabilities assumed as of 1 January 2003 was lower than the value of the contribution as of 31 March 2002, the reported balance of other capital funds as of 1 January 2003 and subsequently also as of 31 December of the following years including 31 December 2011 is negative.

Gains and losses from the revaluation of assets and liabilities include the value of revaluation of the non-current financial assets using the equity method of accounting.

The Company has created a social fund. The creation of and drawing from the fund are governed by the Company's internal guidelines.

3.8. RESERVES

Reserves are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred, but which are uncertain as to the amount or the date on which they will arise.

The reserve for a potential impact of legal disputes is recognised based on an estimate of the anticipated results of the ongoing legal disputes.

The reserve for payments made as compensation for job-related accidents and diseases and bonuses to pensions of certain former employees are established pursuant to a statistical analysis of available historical information as equal to the present value of estimated future payments arising from claims that originate before the balance sheet date.

The reserve for outstanding vacation days is established on the basis of a reasonable estimate as equal to the estimated future cash outflows triggered by the use of vacation days that remained outstanding at the year-end.

The calculation of the reserve for employee benefits is based on current employee information and the anticipated parameters determined on the basis of a reasonable estimate and publicly available statistical underlying information.

3.9. FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are recorded at the fixed exchange rate announced by the Czech National Bank on the first day of each month. Payments are recorded at the rate prevailing on the payment date. 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.

Any resulting foreign exchange rate gains and losses are recorded through the current year's financial expenses or revenues as appropriate.

3.10. FINANCE LEASES

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

3.11. HEDGING DERIVATIVES

The Company records hedging derivatives in terms of Section 52 of Regulation No. 500/2002 Coll.

As of the balance sheet date, derivatives were measured at fair value.

Changes in the fair value of derivatives hedging anticipated cash flows are recognised in equity. They are recognised in expenses or income in the same periods in which the expenses or income related to the hedged items are recognised.

3.12. INCOME TAXES

3.12.1. Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. The taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

3.12.2. Deferred Taxation

Deferred tax is accounted for using the balance sheet liability method. Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply in the period when the tax liability is settled or the asset realised. The balance sheet liability method focuses on temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

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

3.13. CONTRACTUAL FINES AND DEFAULT INTEREST

In accordance with Czech legislation ruling at the balance sheet date, contractual fines and interest on late payments of receivables and payables are recorded when the receivable originates or the payable is incurred.

3.14. STATE GRANTS AND SETTLEMENT OF PUBLIC SERVICE COMMITMENTS FROM THE STATE BUDGET AND REGIONAL BUDGETS

Grants received from public budgets and other sources of funding to finance the acquisition and modernisation of fixed assets are treated as a reduction of the cost of the related assets.

Grants to settle public service commitments received from the State budget and regional budgets, the Complementary Social Programme grant are included in other operating income.

3.15. REVENUE RECOGNITION

Revenues related to transportation services are recognised in the period in which the services are provided.

The 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.

Other revenues are recognised in the period to which they relate on an accruals basis, except where accruals cannot be estimated with a reasonable degree of certainty or where accrual accounting for revenues is not required by Czech accounting regulations.

3.16. USE OF ESTIMATES

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.17. CHANGES IN ACCOUNTING POLICIES

In the year ended 31 December 2011, the Company did not use any accounting policies different from those adopted in the previous reporting period.

3.18. EXTRAORDINARY EXPENSES AND INCOME

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly. These expenses and income include, for example, the sale of a business part.

3.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows:

(CZK thousand)

	31 Dec 2011	31 Dec 2010
Cash on hand and cash in transit	71,890	52,351
Cash at bank	187,236	117,261
Short-term securities and investments	1,573,800	0
Total cash and cash equivalents	**1,832,926**	**169,612**

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

4.1. INTANGIBLE FIXED ASSETS

(CZK thousand)

Acquisition cost	Balance at 1 Jan 2010	Additions	Disposals	Reclassifications	Balance at 31 Dec 2010	Additions	Disposals	Reclassifications	Balance at 31 Dec 2011
Research and development	103,872	0	7,615	0	96,257	0	350	0	95,907
Software	524,922	71,482	2,287	0	594,117	69,524	132,455	-36,613	494,573
Valuable rights	2,193,138	8,497	484	181	2,201,332	47,933	11,770	12,187	2,249,682
Other assets	760	0	0	0	760	0	0	0	760
Intangible assets under construction	128,494	99,385	95,685	0	132,194	132,385	127,764	-1,185	135,630
Total	**2,951,186**	**179,364**	**106,071**	**181**	**3,024,660**	**249,842**	**272,339**	**-25,611**	**2,976,552**

Accumulated amortisation	Balance at 1 Jan 2010	Additions	Disposals	Reclassifications	Balance at 31 Dec 2010	Additions	Disposals	Reclassifications	Balance at 31 Dec 2011
Research and development	102,826	525	7,614	0	95,737	520	350	0	95,907
Software	373,091	120,717	1,773	0	492,035	96,115	106,126	-21,236	460,788
Valuable rights	1,971,145	50,277	0	0	2,021,422	53,417	4,678	991	2,071,152
Other assets	760	0	0	0	760	0	0	0	760
Intangible assets under construction	0	0	0	0	0	0	0	0	0
Total	**2,447,822**	**171,519**	**9,387**		**2,609,954**	**150,052**	**111,154**	**-20,245**	**2,628,607**

Provisions	Balance at 1 Jan 2010	Additions	Disposals	Reclassifications	Balance at 31 Dec 2010	Additions	Disposals	Reclassifications	Balance at 31 Dec 2011
Software	0	0	0	0	0	0	0	0	0

Net book value	Balance at 1 Jan 2010	Balance at 31 Dec 2010	Balance at 31 Dec 2011
Research and development	1,046	520	0
Software	151,831	102,082	33,785
Valuable rights	221,993	179,910	178,530
Other assets	0	0	0
Intangible assets under construction	128,494	132,194	135,630
Total	**503,364**	**414,706**	**347,945**

Intangible fixed assets specifically comprise the Company's logo which was valued at CZK 1,729 million by an independent appraiser in 1997. The Company recognises accumulated amortisation in respect of the logo in the same amount. Intangible fixed assets include software applications used in business activities entitled ARES, In-card, UNIPOK, IS OPT, GSM-R, IS-ADPV and items relating 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, and software applications used in business activities - MAVIS, ISOŘ, IS-PRM, IS-ADPV, In-cards, IS-KADR and Projekt 602 software modules.

4.2. TANGIBLE FIXED ASSETS

(CZK thousand)

Acquisition cost	Balance at 1 Jan 2010	Additions	Disposals	Reclassifi-cations	Balance at 31 Dec 2010	Additions	Disposals	Reclassifi-cations	Balance at 31 Dec 2011
Land	6,407,584	41,611	55,188	-181	6,393,826	1,718	111,960	-53	6,283,531
Buildings	17,109,379	386,403	184,406	-13,429	17,297,947	430,865	393,334	6,457	17,341,935
Individual movable assets	43,661,613	4,584,724	1,600,996	13,496	46,658,837	4,739,994	579,653	18,028	50,837,206
- Machinery, equipment, and furniture and fixtures	*2,461,230*	*58,731*	*142,011*	*3,897*	*2,381,847*	*48,375*	*206,643*	*26,350*	*2,249,929*
- Vehicles	*41,088,882*	*4,525,631*	*1,446,776*	*9,637*	*44,177,374*	*4,630,070*	*336,328*	*62,282*	*48,533,398*
- Other	*111,501*	*362*	*12,209*	*-38*	*99,616*	*61,549*	*36,682*	*-70,604*	*53,879*
Other assets	4,135	65	368	0	3,832	908	581	-6	4,153
Tangible assets under construction	679,437	5,355,120	5,120,790	0	913,767	5,550,116	5,203,769	1,185	1,261,299
Prepayments	1,864,495	3,453,723	2,299,936	0	3,018,282	2,685,645	1,429,784	0	4,274,143
Total	**69,726,643**	**13,821,646**	**9,261,684**	**-114**	**74,286,491**	**13,409,246**	**7,719,081**	**25,611**	**80,002,267**

Accumulated depreciation	Balance at 1 Jan 2010	Additions	Disposals	Reclassifi-cations	Balance at 31 Dec 2010	Additions	Disposals	Reclassifi-cations	Balance at 31 Dec 2011
Buildings	8,148,504	337,137	129,528	-3,361	8,352,752	339,847	218,429	1,719	8,475,889
Individual movable assets	21,013,744	1,558,668	1,202,381	3,361	21,373,392	1,714,279	513,983	18,525	22,592,213
- Machinery, equipment, and furniture and fixtures	*1,776,719*	*103,620*	*138,958*	*3,255*	*1,744,636*	*91,674*	*177,756*	*21,770*	*1,680,324*
- Vehicles	*19,142,746*	*1,452,314*	*1,051,353*	*144*	*19,543,851*	*1,620,971*	*300,410*	*-1,568*	*20,862,844*
- Other	*94,279*	*2,734*	*12,070*	*-38*	*84,905*	*1,634*	*35,817*	*-1,677*	*49,045*
Other assets	184	13	123	0	74	60	0	0	134
Tangible assets under construction	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0
Total	**29,162,432**	**1,895,818**	**1,332,032**	**0**	**29,726,218**	**2,054,186**	**732,412**	**20,244**	**31,068,236**

Provisions	Balance at 1 Jan 2010	Additions	Disposals	Balance at 31 Dec 2010	Additions	Disposals	Balance at 31 Dec 2011
Land	4,300	3,860	4,300	3,860	0	0	3,860
Buildings	63,816	58,386	63,816	58,386	0	11,899	46,487
Individual movable assets	1,274,332	1,083,236	1,274,332	1,083,236	0	232,411	850,825
- Machinery, equipment, and furniture and fixtures	*238*	*171*	*238*	*171*	*0*	*92*	*79*
- Vehicles	*1,274,094*	*1,083,065*	*1,274,094*	*1,083,065*	*0*	*232,319*	*850,746*
- Other	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Other assets	0	0	0	0	0	0	0
Tangible assets under construction	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0
Total	**1,342,448**	**1,145,482**	**1,342,448**	**1,145,482**	**0**	**244,310**	**901,172**

(CZK thousand)

Net book value	Balance at 1 Jan 2010	Balance at 31 Dec 2010	Balance at 31 Dec 2011
Land	6,403,284	6,389,966	6,279,671
Buildings	8,897,059	8,886,809	8,819,559
Individual movable assets	21,373,537	24,202,209	27,394,168
- Machinery, equipment, and furniture and fixtures	*684,272*	*637,040*	*569,526*
- Vehicles	*20,672,042*	*23,550,458*	*26,819,808*
- Other	*17,223*	*14,711*	*4,834*
Other assets	3,951	3,758	4,019
Tangible assets under construction	679,437	913,767	1,261,299
Prepayments	1,864,495	3,018,282	4,274,143
Total	**39,221,763**	**43,414,791**	**48,032,859**

Land and buildings principally consist of immovable assets – train stations and depots for rail vehicles (including the peripheral area around train stations and depots) and other immovable assets used to operate passenger railway transportation and other activities of the Company. Assets comprising the railway routes owned by the State are not included in land and buildings.

Vehicles principally comprise rail vehicles (locomotives, passenger coaches, wagons and other rail vehicles) used in the course of providing passenger transportation services. On the basis of stock count procedures and analyses, the Company has identified asset components where there is significant uncertainty regarding their future utilisation. These assets have been provisioned as equal to the difference between the net book value and the estimated fair value (typically the net proceeds of the sale or disposal of the relevant asset). As of 31 December 2011 and 2010, the provisions against the product of the 680 series tilting trains (Pendolino) amounted to CZK 719,340 thousand and CZK 960,342 thousand, respectively. The provision was determined on the basis of an independent expert's assessment reflecting the market value net of the costs of sale. The reversal of the provision between 2009, 2010 and 2011 is due to the development of the railway transportation in the region and improvement in the operating use of the units.

Principal items of prepayments made for tangible fixed assets are prepayments for the acquisition of the 471 series electric locomotives in the amount of CZK 600,000 thousand, electrical units (EMU 320, EMU 160, EMU 240) in the amount of CZK 1,277,955 thousand, motor units (DMU 120, DMU 85) in the amount of CZK 581,046 thousand and the 380 series electrical three-system locomotives in the amount of CZK 280,980 thousand. The Company is conducting negotiations with the supplier of these locomotives, Škoda Transportation, regarding compensation for delays in the contracted deliveries. The negotiations have not yet been finalised. For this reason, the form and amount of the final settlement cannot be determined. Management of the Company believes that the final settlement will not have any adverse impact on the current value of assets under construction and prepayments made.

Principal additions to tangible fixed assets include the modernisation of motor units of CZK 1,081,596 thousand, the acquisition of the 471 series electrical units in the amount of CZK 892,800 thousand, acquisition of motor vehicles of the 840 and 841 series of CZK 371,949 thousand, modernisation of connectable passenger coaches of the 053 series of CZK 183,243 thousand and revitalisation of passenger coaches of CZK 100,283 thousand.

4.2.1. Pledged Assets

The Company holds assets at the net book value of CZK 3,474,975 thousand that were pledged as security, of which train sets of the 471 series amounted to CZK 2,420,509 thousand, the Ampz passenger coaches amounted to CZK 445,148 thousand and the Bmz passenger coaches with the net book value of CZK 609,318 thousand.

4.2.2. Tangible Fixed Assets not Reported on the Face of the Balance Sheet

The aggregate amount of tangible fixed assets not reported on the face of the balance sheet as of 31 December 2011 was CZK 630,012 thousand (31 December 2010: CZK 881,272 thousand). These include items worth less than CZK 40 thousand that are recorded only in the underlying operating records. These items are recognised in expenses at the moment of acquisition in accordance with applicable legislation.

4.2.3. Investment Grants

Investment grants received in the year ended 31 December 2011 amounted to CZK 850 thousand (31 December 2010: CZK 104,914 thousand). The grants from the State Fund of Transport Infrastructure were not used in the years ended 31 December 2011 and 2010.

4.2.4. Assets Held under Finance Leases

(CZK thousand)

	Date of inception	Term in months	Total lease value	Payments made at 31 Dec 2010	Payments made at 31 Dec 2011	Due in 2012	Due in the following years
854 series motor vehicles	Jan 2006	126	296,305	133,506	161,889	28,671	105,745
WLABmz wagon-lits	March 2007	120	870,589	335,785	421,439	85,553	363,597
28 modernised wagons	Dec 2007	132	799,409	167,005	246,268	79,020	474,121
4 modernised wagons	Dec 2007	133	120,990	23,738	35,779	12,029	73,182
7 modernised wagons	Dec 2007	134	210,279	39,940	60,628	20,671	128,980
1 modernised wagons	Dec 2007	135	30,694	5,486	8,544	3,055	19,095
58 not modernised wagons	June 2010	126–138	2,113,621	0	98,038	211,364	1,804,219
19 locomotives	June 2010	126–143	913,311	0	35,998	57,606	819,707
Total			**5,355,198**	**705,460**	**1,068,583**	**497,969**	**3,788,646**

Other assets held under operating leases recorded off-balance sheet amounted to CZK 6,556 thousand and CZK 7,891 thousand in the years ended 31 December 2011 and 2010, respectively.

4.3. NON-CURRENT FINANCIAL ASSET

4.3.1. Equity Investments in Subsidiaries

As of 31 December 2011 (CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2011	Valuation at 31 Dec 2011
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-7,530	51%	42,589	*	21,720
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66%	-1,489	-490	0
ČD Reality a. s.	Prague 6, Václavkova 169/1	4,940	-1,211	100%	3,729	*	3,729
Dopravní vzdělávací institut, a. s.	Prague 3, Husitská 42/22	3,200	7,897	100%	11,097	*	11,097
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51%	-8,742	-1,970	0
ČD travel, s. r. o.	Prague 1, Na Příkopě 988/31	7,500	928	51.72%	16,302	*	8,428
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	330,414	194,049	100%	524,463	*	524,463
ČD – Telematika a. s.	Prague 3, Pernerova 2819/2a	673,152	584,234	59.31%	2,120,024	*	1,257,386
DPOV, a. s.	Přerov, Husova 635/1b	386,395	135,505	100%	521,900	*	521,900
ČD Cargo, a. s.	Prague a 7, Jankovcova 1569/2c	3,577,750	4,431,209	100%	8,008,959	*	8,008,959
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-179	51%	1,648	-126	841
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-369	51%	1,276	*	651
Total		**5,016,321**	**5,342,853**				**10,359,174**

* The final financial statements for the year ended 31 December 2011 were not provided.

As of 31 December 2010 (CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2010	Valuation at 31 Dec 2010
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-2,765	51%	48,658	7,721	26,485
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66%	-999	-425	0
ČD Reality a. s.	Prague 6, Václavkova 169/1	1,020	2,803	51%	7,658	201	3,823
Dopravní vzdělávací institut, a. s.	Prague 3, Husitská 42/22	3,200	9,682	100%	11,420	4,685	12,882
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51%	-6,772	-1,743	0
ČD travel, s. r. o.	Prague 1, Na Příkopě 988/31	7,500	1,212	51.72%	1,392	1,507	8,712
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	330,414	160,886	100%	486,512	53,349	491,300
ČD – Telematika a. s.	Prague 3, Pernerova 2819/2a	673,152	554,869	59.31%	2,072,294	34,112	1,228,021
DPOV, a. s.	Přerov, Husova 635/1b	386,395	116,665	100%	500,921	33,853	503,060
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	3,577,750*	4,389,006	100%	7,966,756	-427,113	7,966,756
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-115	51%	1 774	-80	905
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-369	51%	1 276	-156	651
Total		**5,012,401**	**5,230,194**				**10,242,595**

* In 2010, the share capital of ČD Cargo decreased by CZK 306 million.

On 1 April 2011, ČDT – Informační Systémy, a.s. with its registered office at Pernerova 2819/2a, Prague 3, was formed. Its founder and the sole shareholder is ČD-Telematika, a.s. The principal activities of this entity include the provision of IT services. Mutual transactions between ČD and this entity are material and are disclosed in Note 4.18 'Related Party Transactions'.

On 1 August 2011, 49% of the shares of ČD Reality a.s. was transferred from the original shareholder, PRO-SERV s.r.o. As a result, České dráhy, a.s. became the sole shareholder of this entity.

4.3.2. Equity Investments in Associates

As of 31 December 2011 (CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss in 2011	Valuation at 31 Dec 2011
CR-City a. s.	Prague 3, Olšanská 1a	680	-680	34%	-271	-368	0
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34%	-10,735	*	0
JLV, a. s. 1	Prague 4, Chodovská 3/228	20,000	103,654	38.79%	318,777	*	123,654
CR office a.s.	Prague 3, Olšanská 2643/1a	680	-680	34%	-4,476	-297	0
RS hotel a.s.	Prague 3, Olšanská 2643/1a	680	-239	34%	1,259	-164	441
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	26,489	34%	72,440	345	26,557
WHITEWATER a.s.	Prague 3, Olšanská 2643/1a	680	-275	34%	1,182	-150	405
ČD Restaurant, a.s.	Prague 3, Prvního pluku 81/2a	8,000	1,536	40%	23,808	3,497	9,536
Total		**31,468**	**129,125**				**160,593**

* Companies did not provide their final financial statements for the year ended 31 December 2011.

As of 31 December 2010 (CZK thousand)

Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss in 2011	Valuation at 31 Dec 2011
CR-City a. s.	Prague 3, Olšanská 1a	680	-540	34%	97	-728	140
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34%	-9,190	-3,440	0
JLV, a. s.	Prague 4, Chodovská 3/228	20,000	96,386	38.79%	301,487	11,216	116,386
CR office a.s.	Prague 3, Olšanská 2643/1a	680	-680	34%	-4,178	-5,349	0
RS hotel a.s.	Prague 3, Olšanská 2643/1a	680	-200	34%	1,424	-91	480
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	28,732	34%	72,095	151	28,800
WHITEWATER a.s.	Prague 3, Olšanská 2643/1a	680	-238	34%	1,331	-77	442
ČD Restaurant, a.s.	Prague 3, Prvního pluku 81/2a	8,000[2]	395	40%	21,059	1,816	8,395
BCC, s.c.r.l.	Av.De la Port de Gal 40, Brusel	92	708	20%	3,999	*	800
Total		**31,560**	**123,175**				**155,443**

* The financial statements for the year ended 31 December 2010 were not provided.
[2] In 2010, the cost was increased by four shares of CZK 4,000 thousand.

4.3.3. Other Equity Investments and Securities

(CZK thousand)

Type of security and investment	31 Dec 2011	31 Dec 2010
PraK, a. s.	850	850
Hit Rail B.V.	4,017	4,017
EUROFIMA	262,873	262,873
BCC S.c..r.l.	92	92
INTERCONTAINER-INTERFRIGO, o. s.	0	0
INTERNATIONALE SPEDITION Děčín a. s.	8	8
Total	**267,840**	**267,748**

The equity investment of the Company in EUROFIMA is 1 percent. This equity investment allows the Company to draw finances of this institution, as detailed in Note 4.10. EUROFIMA is a multinational company engaged in the funding of purchases of rail vehicles and development of railway transportation in Europe.

In the year ended 31 December 2010, the Company recognised a provision against non-current financial assets in the amount CZK 5,189 thousand in respect of Intercontainer-Interfrigo.

In November 2010, the Company accounted for the finding of securities regarding the equity investment of České dráhy, a.s. in BCC, s.c.r.l. Brussels in the amount of CZK 92 thousand.

4.4. INVENTORY

(CZK thousand)

	Balance at 31 Dec 2011	Balance at 31 Dec 2010
Spare parts for machinery and equipment	72,158	74,000
Spare parts and other components for rail vehicles and locomotives	1,123,085	1,182,615
Other spare parts, tools and equipment and their components	85,871	99,169
Fuels, lubricants and other oil products	22,637	20,888
Work clothes, work shoes, protective devices	145,233	250,735
Other	66,145	98,484
Total cost	**1,515,129**	**1,725,891**
Provisions	7,786	8,532
Total net book value	**1,507,343**	**1,717,359**

The Company records provisions against redundant inventory components and/or inventory that carries the risk of its net realisable value being lower than cost.

4.5. SHORT-TERM RECEIVABLES

4.5.1. Trade Receivables

(CZK thousand)

Year	Category	Before due date	Past due (in days) 1–30 days	31–90	91–180	181–365	365 and more	Total	Total
2011	Gross	866,417	11,598	14,650	7,113	13,165	58,798	105,324	**971,741**
	Provisions	0	0	0	-67	-7,435	-57,542	-65,044	**-65,044**
	Net	866,417	11,598	14,650	7,046	5,730	1,256	40,280	**906,697**
2010	Gross	577,353	24,095	22,163	9,937	221,705	59,202	337,102	**914,455**
	Provisions	-8	0	0	-35	-211,476	-54,794	-266,305	**-266,313**
	Net	577,345	24,095	22,163	9,902	10,229	4,408	70,797	**648,142**

Trade receivables also include the receivable from Škoda Transportation, a.s. arising from the contractual sanction for the delayed supplies of the 380 series locomotive. The negotiations regarding adequate compensation from the supplier have not yet been finalised.

4.5.2. Intercompany Receivables

(CZK thousand)

Entity	Balance at 31 Dec 2011	Balance at 31 Dec 2010
Short-term receivables		
ČD - Telematika a. s.	132,745	5,902
Výzkumný Ústav Železniční, a. s.	110	351
JLV, a. s.	785	801
DPOV, a. s.	52,436	65,652
ČD Cargo, a. s.	261,183	331,666
ČDT-Informační systémy, a.s.	42	0
Total short-term intercompany receivables*	**447,301**	**404,372**
Other than intercompany receivables	524,440	510,083
Total short-term intercompany receivables - gross	**971,741**	**914,455**
Provision against receivables	-65,044	-266,313
Total short-term trade receivables - net	**906,697**	**648,142**

* Receivables from other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany receivables.

4.5.3. Tax Receivables

As of 31 December 2011 and 2010, tax receivables amounted to CZK 672,605 thousand and CZK 338,088 thousand, respectively, and largely consisted of receivables arising from VAT.

4.5.4. Prepayments Made

As of 31 December 2011 and 2010, short-term prepayments made amounted to CZK 121,596 thousand and CZK 130,621 thousand, respectively, and largely consisted of prepayments made for the supply of services (heat, water, gas, etc.).

4.6. ESTIMATED RECEIVABLES

(CZK thousand)

	Balance at 31 Dec 2011	Balance at 31 Dec 2010
Cross-border rentals for passenger coaches	400,123	407,987
Income from international transportation - passenger transportation	99,402	66,454
Other	138,895	163,952
Total estimated receivables	**638,420**	**638,393**

Cross-border rentals for passenger coaches (from operating performance in international passenger transportation before 31 December 2011) are recognised in income on a monthly basis on the temporary assets accounts. The final billing is performed in accordance with the RIC agreement within four months after the expiry of the train transport flow chart.

4.7. GRANTS

The Company uses the grant to settle the loss from passenger transportation from the state budget and regional budgets. As of 31 December 2011, unsettled receivables from the state budget and the regional budgets amounted to CZK 29,901 thousand, of which CZK 7,321 thousand was the receivable for the tariff liability paid by the Ministry of Transportation as a compensation for provided discounts ordered through the Price Assessment of the Finance Ministry which publishes a list of the goods with regulated prices. In this case, the regulated price is the fare in the passenger railway transportation.
In addition, the Company is a recipient of grants from EU funds and the state budget to cover expenses for special programmes in railway transportation. Received prepayments before the final billing of individual programmes as of 31 December 2011 amount to CZK 15,720 thousand (2010: CZK 11,298 thousand).

4.8. EQUITY

The 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.

Information about the substance of individual equity components is presented in Note 3.7 to the financial statements.

In 2011, the change in the revaluation of assets and liabilities amounts to CZK 86,426 thousand, of which the revaluation of non-current financial assets using the equity method of accounting amounts to CZK 117,901 thousand and the revaluation of derivative financial instruments amounts to CZK (31,475) thousand. In 2010, the revaluation of non-current financial assets amounted to CZK (49,844) thousand and revaluation of derivative financial instruments amounted to CZK 56,978 thousand.

The increase in statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 178,527 thousand, of which CZK 8,879 thousand from the profit generated in 2010 and CZK 169,648 thousand from the share premium. The amount of CZK 178,527 thousand represents 2 percent of the annual expenses recognised for salaries and compensation for salaries for the year ended 31 December 2010. Another recognition of the social fund of CZK 497 thousand includes repayments of the loans from employees and other income.

The General Meeting approved the proposal for the allocation of the 2010 profit of CZK 9,345.8 thousand. The amount of CZK 467 thousand was allocated to the reserve fund of 5% of the net profit and CZK 8,879 thousand was allocated to the social fund.

4.9. RESERVES

(CZK thousand)

	Balance at 1 Jan 2009	Charge	Use	Balance at 31 Dec 2010	Charge	Use	Balance at 31 Dec. 2011
Reserve for rents	10,653	11,223	10,653	11,223		3,001	8,222
Reserve for legal disputes	26,687	275,601	26,687	275,601	5,917	12,680	268,838
Reserve for outstanding vacation days	52,693	47,645	52,693	47,645	41,488	47,645	41,488
Reserve for removal of the environmental burden	35,130	30,874	35,130	30,874		20,190	10,684
Reserve for employee benefits	0	0	0	0	80,000	0	80,000
Total reserves	**125,163**	**365,343**	**125,163**	**365,343**	**127,405**	**83,516**	**409,232**

The reserve for the removal of the environmental burden is recognised for the clean-up of the locality in Brodek u Přerova. Following the selection of the contractor, the originally determined budget was decreased to CZK 74,395 thousand; CZK 62,984 thousand is paid from EU subsidies. The Company does not recognise reserve for potential other environmental burdens as it is not able to estimate the scope of these burdens and its share in their removal.

In 2010, the Company reclassified the amount of CZK 254 million from estimated payables to reserves for legal disputes. This is a fine from the Anti-Monopoly Office from 2007 for the breach of the rules of economic competition in freight transportation.

In 2011, the Company newly recognised a reserve for employee benefits.

All of the reserves charged in the year ended 31 December 2011 are non-tax deductible.

4.10. LONG-TERM PAYABLES

(CZK thousand)

	Balance at 31 Dec 2011	Balance at 31 Dec 2010
Payable to EUROFIMA	4,256,948	4,134,850
Issued bonds	7,740,000	2,000,000
Other	167,979	66,951
Total long-term payables	**12,164,927**	**6,201,801**

The Company received, in several tranches, a long-term loan from EUROFIMA to finance the purchase of rail vehicles. The interest rate is determined on the basis of the Euribor reference rate. The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2011 and 2010 was CZK 12,259 thousand and CZK 10,255 thousand, respectively. The maturity of the loan is 10 years for each tranche.

The capitalised interest on issued bonds amounted to CZK 33,454 thousand and CZK 111,512 thousand in the years ended 31 December 2011 and 2010, respectively. The capitalised interest on Eurobonds amounted to CZK 72,125 thousand in 2011.

The bonds issued in December 2009 in the amount of CZK 2 billion will mature in December 2012 and are reported in short-term payables.

On 24 June 2011, the Company issued Eurobonds with the nominal value of EUR 300 million with a five-year maturity and fixed coupon of 4.5% p.a. The issue rate was 99.479%. The joint leading managers of the issue were Barclays Capital, Erste Group and Société Générale. These are bonds listed on the Luxembourg stock exchange.

Other long-term payables in 2011 and 2010 predominantly included construction investments and a payable arising from the update protocol to the contract for the lease of part of Dopravní zdravotnictví, a.s.

4.11. SHORT-TERM PAYABLES

The Company's short-term payables significantly exceed its current assets as of 31 December 2011. The reason principally relates to urgent capital expenditure requirements and the use of more-readily available short-term resources for this purpose. The Company believes that it is able to tackle this situation in the short-term by managing relations with its suppliers and by using all available short-term resources. In its medium-term financial plan, the Company anticipates further increasing its long-term funds.

4.11.1. Short-Term Payables

(CZK thousand)

Year	Category	Before due date	Past due (in days)						Total
			1–30	31–90	91–180	181–365	365 and more	Total	
2011	Short-term	4,615,248	23,067	29,257	18,130	2,896	2,937	76,287	**4,691,535**
2010	Short-term	4,292,280	450,417	6,942	15,505	5,260	6,591	484,715	**4,776,995**

The Company carries no payables to taxation authorities, social security authorities or health insurers past their due dates.

4.11.2. Intercompany Payables

(CZK thousand)

Entity	Balance at 31 Dec 2011	Balance at 31 Dec 2010
Short-term payables		
ČD - Telematika a. s.	99,709	131,308
Výzkumný Ústav Železniční, a. s.	294	815
JLV, a. s.	80	26,425
DPOV, a. s.	142,826	298,249
ČD Cargo, a. s.	5,504	5,483
ČDT-Informační systémy, a.s.	76,483	0
Total short-term intercompany payables*	**324,896**	**462,280**
Other than intercompany payables	4,366,639	4,314,715
Total short-term trade payables	**4,691,535**	**4,776,995**

* Payables to other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany payables.

4.11.3. Tax Payables

As of 31 December 2011, tax payables were largely composed of personal income tax from dependent activities amounting to CZK 61,694 thousand (31 December 2010: CZK 119,934 thousand).

4.11.4. Prepayments Received

As of 31 December 2011, short-term prepayments received amounted to CZK 172,727 thousand (31 December 2010: CZK 149,779 thousand) and were largely composed of rental prepayments.

4.11.5. Issued Bonds

The bonds issued in December 2009 in the amount of CZK 2 billion will mature in December 2012.

4.12. ESTIMATED PAYABLES

(CZK thousand)

	Balance at 31 Dec 2011	Balance at 31 Dec 2010
Fees for the use of RIC vehicles	446,213	413,186
Costs of international transportation – cross-border transportation	53,828	58,903
Other	307,009	404,736
Total estimated payables	**807,050**	**876,825**

The fees for the use of foreign coaches by ČD trains in the Czech Republic (from services in the international passenger transportation before 31 December 2011) are recognised in expenses on a monthly basis through temporary payables. The final billing is performed in accordance with the RIC agreement within four months after the expiry of the train transport flow chart. Other estimated payables largely include unbilled supplies for 2011 and accrued lease instalments.

4.13. BANK LOANS

Long-term Bank Loans

Bank	Currency	Balance at 31 Dec 2011 (CZK thousand)	Balance at 31 Dec 2010 (CZK thousand)	Interest rate	Collateral form
ČSOB	EUR	528,761	770,392	3M EURIBOR + 0,5	State guarantee
Total		**528,761**	**770,392**		

The Company has entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium are 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 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. As of 31 December 2006, the whole loan facility of EUR 92,065 thousand was drawn. The Company began repaying the loan principal on 25 May 2005 (repayments on 25 May and 25 November each year). As of 31 December 2011, EUR 61,323 thousand was repaid from the aggregate loan facility and the principal of EUR 30,742 thousand remains to be repaid between 2012 and 2014. The final maturity date of the loan is 25 November 2014.

Short-Term Bank Loans and Financial Borrowings

Short-term loans as of 31 December 2010 include the use of an overdraft loan and a short-term portion of bank loans; as of 31 December 2011, the balance is composed solely of the short-term part of banking loans. Short-term borrowings include funds acquired from the issue of short-term bills of exchange, largely outside the subscription obligation, which shows the willingness of investors to co-finance the Company. The issued bills of exchange are used primarily for liquidity management. 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.

As part of the approved bills of exchange programme, the Company used finances of CZK 2,556,573 thousand as of 31 December 2011 through bills of exchange.

As of 31 December 2011, the portion of the long-term loan repayable within one year from the balance sheet date is CZK 264,381 thousand.

The amount of capitalised interest and relating fees on the long-term banking loan from ČSOB for the year ended 31 December 2011 was CZK 18,040 thousand, of which interest amounted to CZK 17,685 thousand and fees amounted to CZK 355 thousand. Interest on the loan from ČSOB is reported as interest expenses of the current period after train sets of the 680 series were put into use. In the year ended 31 December 2011, EUR was translated into CZK using the Czech National Bank's exchange rate of CZK 25.80/EUR 1 effective as of 31 December 2011 as the last working day of 2011.

4.14. DERIVATIVE FINANCIAL INSTRUMENTS

(CZK thousand)

	Valuation differences in the use of the fair value at 31 Dec 2011	Valuation differences in the use of the fair value at 31 Dec 2010
Commodity derivatives	18,274	22,017
Interest rate swaps	-53,400	34,961
Cross-currency interest rate swap	441,596	0
Total	**406,470**	**56,978**

In the year ended 31 December 2010, the Company concluded a transaction, the subject matter of which is the hedging of the price of the purchased traction oil of 2x 14,155.20MT for the period from January 2010 to January 2013. The hedging is concluded with ING Bank N.V. and Citi Bank Europe plc. As of 31 December 2011, the volume of the open commodity contracts is 5,501 MT in the hedging range 635 – 820 CZK/MT.

In order to hedge the risk from long-term loans, the Company concluded a transaction in 2010, the subject matter of which is the interest hedging of 2x EUR 30 million with the fixed interest rates of 2.28% and 2.58 %. The transactions will expire in April 2016 and April 2017. The hedging is concluded with Crédit Agricole Corporate and Investment Bank S.A. and Citi Bank Europe plc.

In respect of newly issued bonds, the Company concluded cross-currency interest rate swaps in June 2011 that serve as hedging against currency and interest rate risks. The total volume of hedging is EUR 240 million. The financial settlement of the interest rate between ČD and the banks will be on an annual basis, from 24 June 2012 to 24 June 2016, inclusive.

4.15. INCOME TAXES

4.15.1. Tax Payable

The corporate income tax base for the year ended 31 December 2011 net of tax losses from prior taxation periods is CZK 0. Utilisable losses at the end of 2011 and 2010 amount to CZK 5,929,355 thousand and CZK 5,892,727 thousand, respectively. The difference between the accounting loss and the tax base is predominantly due to the interruption of depreciation for tax purposes and utilisation of tax losses of prior taxation periods.

In the year ended 31 December 2011, the Company paid taxes from the individual tax base of CZK 73 thousand (EURAIL and HITRAIL). This income amounted to CZK 487 thousand.

4.15.2. Deferred Taxation

The Company has determined a deferred tax asset as follows:

(CZK thousand)

	Balance at 31 Dec 2011	Balance at 31 Dec 2010
Tangible and intangible fixed assets	-183,491	-531,026
Provisions against fixed assets	170,489	216,908
Non-current financial assets	986	0
Trade receivables	7,685	8,497
Inventory	1,479	1,621
Reserves	77,754	21,155
Unpaid contractual fines	-347	-12,412
Unpaid supplier contractual fines	2,892	3,479
Accumulated tax loss	785,037	1,119,618
Derivative financial instruments	-4,845	-10,735
Total deferred tax asset - unrecognised	**857,639**	**817,111**

The Company has decided not to recognise the deferred tax asset on the grounds of prudence and due to the uncertainty regarding the availability of future taxable profits.

4.16. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses predominantly comprise the interest and fees from the loan from EUROFIMA and leases.

Deferred income includes primarily rental income paid in advance.

4.17. INCOME FROM THE SALE OF THE COMPANY'S PRODUCTS AND SERVICES

(CZK thousand)

	Year ended 31 Dec 2011			Year ended 31 Dec 2010		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income from passenger transportation	4,910,316	1,806,452	6,716,768	4,698,629	1,817,777	6,516,406
Income from other transportation	28,979	0	28,979	34,512	0	34,512
Income from securing railway routes/servicing the route	3,266,666	0	3,266,666	5,194,373	0	5,194,373
Income from other services	1,105,056	0	1,105,056	1,110,294	0	1,110,294
Income from the sale of the Company's products and services	**9,311,017**	**1,806,452**	**11,117,469**	**11,037,808**	**1,817,777**	**12,855,585**

Cross-border income includes the share of the Company of income from the international transportation of goods and passengers, border area services and sales from the cross-border rent of coaches and wagons.

Income from securing railway routes represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 3,266,666 thousand for the period before 31 August 2011 (2010: CZK 5,194,373 thousand). A description of the transactions between the Company and SŽDC is provided in Note 7.2.

Income from other services includes proceeds from the other activities of the Company, specifically income from the lease of land, buildings and non-residential premises and apartments, income for the commercial-technical services, income from heat and electricity distribution.

4.18. RELATED PARTIES TRANSACTIONS

4.18.1. Income Generated with Related Parties

2011 (CZK thousand)

Entity	Relation to the Company	Material	Services	Other income	Total
ČD – Telematika a. s.	Subsidiary	3	19,133	70	19,206
Výzkumný Ústav Železniční, a. s.	Subsidiary	2	2,186	3	2,191
DPOV, a.s.	Subsidiary	168,823	56,276	1,945	227,044
ČD Cargo, a. s.	Subsidiary	747,690	167,288	2,108	917,086
ČDT-Informační systémy, a.s.	Subsidiary	0	0	4,743	4,743
JLV, a. s.	Associate		16,498		16,498
Total		**916,518**	**261,381**	**8,869**	**1,186,768**

2010 (CZK thousand)

Entity	Relation to the Company	Material	Services	Other income	Total
ČD – Telematika a. s.	Subsidiary	6	19,772	377	20,155
Traťová strojní společnost, a. s.	Subsidiary	21,407	1,662	26	23,095
Výzkumný Ústav Železniční, a. s.	Subsidiary	25	2,350	0	2,375
DPOV, a.s.	Subsidiary	143,885	66,359	990	211,234
ČD Cargo, a. s.	Subsidiary	756,218	183,644	5,866	945,728
JLV, a. s.	Associate	0	8,982	0	8,982
Total		**921,541**	**282,769**	**7,259**	**1,211,569**

4.18.2. Purchases from Related Parties

2011 (CZK thousand)

Entity	Relation to the Company	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	Subsidiary	4,695	90,699	0	95,394
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	439	0	439
DPOV, a.s.	Subsidiary	15,333	701,049	81	716,463
ČD Cargo, a.s.	Subsidiary	2,459	26,880	233	29,572
ČDT-Informační systémy, a.s.	Subsidiary	8,723	143,871	0	152,594
JLV, a. s.	Associate	0	104,850	0	104,850
Total		**31,210**	**1,067,788**	**314**	**1,099,312**

2010 (CZK thousand)

Entity	Relation to the Company	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	Subsidiary	15,432	265,013	5	280,450
Výzkumný Ústav Železniční, a. s.	Subsidiary	18	1,341	0	1,359
DPOV, a.s.	Subsidiary	23,105	661,020	193	684,318
ČD Cargo, a.s.	Subsidiary	2,688	29,187	473	32,348
JLV, a. s.	Associate	0	127,929	0	127,929
Total		**41,243**	**1,084,490**	**671**	**1,126,404**

4.18.3. Purchases and Sales of Fixed Assets and Financial Assets with Related Parties

Sales in 2011 (CZK thousand)

Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a. s.	Subsidiary	0	133,800
Výzkumný Ústav Železniční, a. s.	Subsidiary	438	0
DPOV, a.s.	Subsidiary	0	5,252
ČD Cargo, a.s.	Subsidiary	60	940
ČDT-Informační systémy, a.s.	Subsidiary	0	0
JLV, a. s.	Associate	0	0
Total		**498**	**139,992**

Sales of fixed assets of ČD-Telematika a.s. primarily include the sale of real estate of CZK 131,490 thousand.

Sales in 2010 (CZK thousand)

Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a. s.	Subsidiary	0	0
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	0
DPOV, a.s.	Subsidiary	0	18,632
ČD Cargo, a.s.	Subsidiary	0	9,040
JLV, a. s.	Associate	0	0
Total		**0**	**27,672**

Purchases in 2011 (CZK thousand)

Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a. s.	Controlled entity	15,631	68,600
DPOV, a.s.	Controlled entity	0	237,247
ČD Cargo, a.s.	Controlled entity	10	77
ČDT-Informační systémy, a.s.	Controlled entity	21,459	0
Total		**37,100**	**305,924**

Purchases in 2010 (CZK thousand)

Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a. s.	Controlled entity	52,655	1,421
DPOV, a.s.	Controlled entity	0	97,247
ČD Cargo, a.s.	Controlled entity	0	0
Total		**52,655**	**98,668**

Sales and purchases of fixed assets and financial assets with related parties, except for the above noted, were deemed immaterial and were not disclosed.

4.19. CONSUMED PURCHASES

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Consumed material	1,220,749	1,303,090
Consumed energy	2,025,846	1,963,993
Consumption of fuels	1,433,251	1,376,392
Total consumed purchases	**4,679,846**	**4,643,475**

4.20. SERVICES

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Repairs and maintenance	1,768,629	1,979,388
Travel expenses	115,418	118,761
Telecommunications, data and postal services	321,421	364,595
Other rental	97,868	97,832
Use of railway routes and allocated capacity of the railway routes	1,680,149	1,444,051
Rent for railway coaches and wagons	428,062	420,125
Freight charges	221,179	221,144
Services of dining and sleeping carriages	104,850	127,929
Services associated with the use of buildings	268,272	251,090
Cleaning and shifting of coaches and wagons	412,362	408,482
Lease	434,019	287,674
Border area services	208,392	269,669
Advertising and promotion	117,877	134,825
Other services	994,727	985,487
Total	**7,173,225**	**7,111,052**

Other services predominantly include the expenses of services by traction vehicles of foreign railway transportation companies, commissions from transportation, costs of appraiser and expert services, environmental issues, education, advisory services and similar charges.

Audit services

The total fees payable to the auditor of the financial statements prepared under Czech Accounting Standards (CAS) and International Financial Reporting Standards (IFRS):

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Obligatory audit of the annual financial statements	4,092	5,855
Tax advisory	546	486
Other non-audit services	2,464	11,746
Total	**7,102**	**18,087**

4.21. CHANGE IN RESERVES AND PROVISIONS RELATING TO OPERATING ACTIVITIES

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Change in reserves	43,889	-13,820
Change in provisions against receivables	-199,558	185,457
Change in provisions against tangible fixed assets	-244,311	-196,966
Change in provisions against inventory	-740	496
Total change in reserves and provisions relating to operating activities	**-400,720**	**-24,833**

4.22. OTHER OPERATING INCOME

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Settlement of losses from passenger transportation from the State budget	4,081,091	4,075,137
Settlement of losses from passenger transportation from the regional budgets	8,182,886	8,036,076
Other grants	209,418	267,130
Recoveries of receivables written off and transferred	5,986	2,415
Contractual penalties and default interest	7,256	273,829
Compensation for deficits and damage	65,840	89,136
Acquisition of material	27,581	38,779
Commissions from sales	54,733	55,513
Other	122,558	178,994
Total other operating income	**12,757,349**	**13,017,009**

4.23. OTHER OPERATING EXPENSES

(CZK thousand)

	Year ended 31 Dec 2011	Year ended 31 Dec 2010
Gifts	160	184
Contractual penalties and default interest	15,228	18,360
Other fines and penalties	706	3,150
Write-offs of receivables and transferred receivables	24,293	28,874
Deficits and damage relating to operating activities	15,067	17,172
Insurance	93,846	108,420
Employee uniforms and lump sum payments	74,176	97,415
Compensation for asset damage and impaired health	17,150	27,968
Membership allowances	5,633	5,956
Other operating charges	49,334	107,431
Total other operating expenses	**295,593**	**414,930**

4.24. OTHER FINANCIAL INCOME AND EXPENSES

Other financial income principally consists of foreign exchange rate gains of CZK 409,439 thousand and CZK 353,917 thousand for the years ended 31 December 2011 and 2010, respectively.

Other financial expenses principally consists of foreign exchange rate losses of CZK 544,907 thousand (2010: CZK 46,252 thousand), and banking fees of CZK 17,334 thousand (2010: CZK 18,164 thousand).

4.25. EXTRAORDINARY EXPENSES AND INCOME

Extraordinary expenses and income relate to the sale of the business part as disclosed in Note 1.6.

5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

The following table summarises the average recalculated number of the Company's employees and managers for the years ended 31 December 2011 and 2010:

2011 (CZK thousand)

	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	22,549	7,524,246	2,484,418	412,221	10,420,885
Management	91	152,075	36,325	5,650	194,050
Total	**22,640**	**7,676,321**	**2,520,743**	**417,871**	**10,614,935**

2010 (CZK thousand)

	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	26,887	9,349,098	2,992,916	486,755	12,828,769
Management	105	182,310	41,394	5,849	229,553
Total	**26,992**	**9,531,408**	**3,034,310**	**492,604**	**13,058,322**

In addition to the possibility of using reduced fares, the members of the Company's statutory and supervisory bodies were provided with cash bonuses of CZK 5,650 thousand and CZK 5,820 thousand in 2011 and 2010, respectively. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

6. CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS

6.1. CONTINGENT ASSETS

The Company is the owner of the ČD Cargo trademark which it provided to its subsidiary for use. Between 2008 and 2010, the Company did not charge any licence fees to the user as the trademark was new on the market and it was necessary to invest significant funds in its establishment on the market. These expenses were incurred by the user. Starting from 2011, the Company intends to charge a licence fee to the user in the amount of CZK 95 million per year. The proposed licence agreement has not yet been formally approved by the representatives of both parties and not all legal objections of the user were removed. For this reason, the Company did not recognise the income, it treats the receivable in the above amount as a contingent asset.

6.2. CONTINGENT LIABILITIES

In the year ended 31 December 2011, 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 and the Plzeň–Most railway track, each in the amount of CZK 15 million concluded until the expiry of the 2011/2012 train schedule. The contract in the scope of the ordered services for the 2011/2012 train schedule on the Pardubice–Liberec track is concluded until 8 December 2012 and the contract in the scope of ordered services on the Plzeň–Most track is concluded until 8 December 2012. In addition, a bank guarantee of CZK 51,860 thousand was issued with validity from 11 December 2011 to 8 December 2012. This is a guarantee for securing further continuous operations and potential coverage of damages of the orderer, resulting from the Contract for the Public Services in Passenger Railway Transportation in the Public Interest to provide for basic transportation services in part of the Liberec region for specific operations of the Jizera mountains railways ("Jizerskohorská železnice").

As of the balance sheet date, the Company concluded contracts for the purchase of fixed assets of CZK 26,183 million, of which CZK 9,663 million relates to supplies agreed for 2012 and CZK 8,149 million relates to supplies agreed for the following years. The remaining CZK 8,371 million was settled as of 31 December 2011. A predominant portion of the liabilities relating to expenditures (CZK 25,650 million) are investments in railway vehicles.

The Company holds a 1% equity investment in EUROFIMA. The shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for the funding of railway vehicle purchases. According to Article 5 of the Articles of Association, the 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 2011 was CHF 20,800 thousand (CZK 441,376 thousand) The likelihood that the Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Company's management.

Off balance sheet commitments that relate to finance lease assets are disclosed in Note 4.4.4.

Information about contingent liabilities relating to potential costs of liquidating environmental burdens is disclosed in Note 4.9.

7. OTHER INFORMATION

7.1. SIGNIFICANT FACTORS IMPACTING THE COMPANY'S OPERATIONS

The 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 Company concluded the Contract for the Public Service Commitments for the period from 2010 to 2019 with the State.

By adopting Act No. 194/2010 Coll., on Public Services in Passenger Transportation and Changes in Other Acts, the Czech Republic has harmonised its public transport legislation with EU laws. The Company has concluded contracts for the public service commitment for the period of ten years and more which are governed by the legal regulations before the adoption of the Act referred to above. 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 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.

As of the balance sheet date, amendments to the major part of the ten-year contracts were concluded. In several cases, there are still discussions regarding comments on partial provisions rather than the amendment as a whole. Management of the Company believes that the conclusion of all the amendments is very likely. In the context of the provision of public services in the transportation of passengers, this fact does not constitute any limitations – given the concluded long-term contracts, there is no threat regarding the interruption of their provision or their funding. Prepayments for the settlement of the provable loss are made – in respect of the not-yet-signed amendments for 2012 – in the amount of the prepayments from 2011.

Pursuant to the resolution of the Board of Directors of the Company, changes were made to the "Live Railway Stations" project during 2009. The most significant "Praha hlavní nádraží" project underwent a change in the construction programme in 2011. A change in the time schedule is expected and the shift in the anticipated date of completion in summer 2012. The first stage of the "Masarykovo nádraží in Prague" project which was started in 2010 was completed in 2011. During 2011, the zoning and construction proceedings were started in the "Karlovy Vary horní nádraží" project. The revitalisation of the Brno hl.n. station is in progress, the completion of the train station building revitalisation is anticipated for 2015. In respect of other revitalised localities, contractual arrangements were not fulfilled and were either terminated, modified or discontinued.

7.2. TRANSACTIONS WITH SŽDC

In the year ended 31 December 2011, the Company secured the servicing of the railway route on behalf of the operator, SŽDC, s.o. until 31 August 2011. The contract for the servicing of railway routes was entered into in summer 2008 and was also applicable with its amendments in 2011.

The Company operates railway transportation and it pays a fee in the amount of offer prices for the use of the railway route.

EXPENSES AND INCOME

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2011 and 2010 were as follows:

Year end 31 December 2011 (CZK thousand)

	Expenses	Income
Operation of the railway route	0	3,266,666*
Use of railway route and allocated capacity of the railway route	1,680,149	0
Consumed traction electricity	626,878	0
Other	126,119	0
Total	**2,433,146**	**3,266,666**

* Sales from the operation of the railway route before 31 August 2011.

Year end 31 December 2010 (CZK thousand)

	Expenses	Income
Operation of the railway route	0	5,194,373
Use of railway route and allocated capacity of the railway route	1,444,051	0
Consumed traction electricity	480,188	0
Other	139,404	0
Total	**2,063,643**	**5,194,373**

Income from the operation of the railway route in the year ended 31 December 2011 is disclosed as sales of products and services in Note 4.17.

The costs of using railway routes and the allocated capacity of the railway route are reported as services and are disclosed in Note 4.4.20.

RECEIVABLES AND PAYABLES

As of 31 December 2011, the Company reported receivables from and payables to SŽDC. The aggregate net value of the balances of these items was CZK 510,068 thousand in the year ended 31 December 2011.
The aggregate net value of the balances of these items represented a payable of CZK 425,674 thousand in the year ended 31 December 2010.

In addition, the Company recorded a payable in 2011 arising from unbilled supplies from SŽDC reported as an estimated payable which amounted to CZK 21,507 thousand and CZK 20,303 thousand as of 31 December 2011 and 2010, respectively.

7.3. POST BALANCE SHEET EVENTS

The Supervisory Boards of České dráhy, a. s. and ČD – Telematika a. s. approved the intention to sell ČDT - Informační Systémy, a.s. As of 29 February 2012, the process of transferring the shares of ČDT - Informační Systémy, a.s. from the original owner, ČD – Telematika a. s., to the acquirer, České dráhy, a. s., was completed. The transfer involved the shares representing 100% of the entity's share capital.

The Company has called a tender to select a provider of catering services for passengers.

No other significant events occurred between the balance sheet date and the date of the preparation of the financial statements.

POST-BALANCE SHEET EVENTS

The employment period of JUDr. Petr Polák at the Ministry of Industry and Trade of the Czech Republic terminated as of 31 January 2012. The employment period of Mgr. Jakub Hodinář at the Ministry of Transport of the Czech Republic terminated as of 31 December 2011. Pursuant to the Act 77/2002, Coll., paragraph 12, their positions as members of the Steering Committee of České dráhy, a.s. were terminated with the termination of their employment.

The transfer of shares of ČDT - Informační Systémy, a.s. from its previous owner ČD - Telematika a.s. to the acquirer České dráhy, a.s. was completed on 29 February 2012. The subject of the transfer were 67,269 pcs of shares at the nominal value of CZK 1,000 which represent 100% of the company's equity. České dráhy, a.s. thus became the sole shareholder. ČDT - Informační Systémy, a.s. currently provides majority of IT services for companies within the ČD Group and its activities are solely focused on customers from within the ČD Group.

INFORMATION ABOUT PERSONS RESPONSIBLE FOR THE ČD GROUP'S ANNUAL REPORT

RESPONSIBILITY FOR THE ANNUAL REPORT

AFFIDAVIT

With all reasonable care employed and to the best of our knowledge, the consolidated annual report gives a true and fair view of the financial position, business activities and profit or loss of the Company and its consolidated entity for the year ended 31 December 2011, and of the prospects of the future development of the financial position, business activities and profit or loss of the Company and its consolidated entity, and no facts that could change its meaning have been concealed in this report.

In Prague on 10 April 2012

Petr Žaluda
Chairman of the Board of Directors
České dráhy, a.s.

PROVIDING INFORMATION PURSUANT TO ACT NO. 106/1999 COLL., REGULATING FREE ACCESS TO INFORMATION

Pursuant to Section 18 of Act No. 106/1999 Coll., on Free Access to Information, as amended (hereinafter the "Act") České dráhy, a.s., as the obligated entity, hereby publishes its annual report on its activities in providing information in 2011:

a) The number of submitted information requests and the number of issued declining decisions:
In the given reporting period, the total number of information requests and the total number of declining decisions was 22 and 11, respectively. The latter figure also includes decisions issued regarding partially-declined requests when the applicant was partially satisfied (5 cases).

b) The number of submitted appeals against decisions:
A total 6 appeals were submitted against declining decisions.

c) A copy of the most important parts of each judicial judgement regarding the review of the legality of the obligated entity's decision to decline the information request and the summary of all expenses spent by the obligated entity in connection with judicial proceedings regarding the rights and duties established by the law, including its staff costs and legal representation costs:
In the given period, no judgement regarding a review of the legality of the obligated entity's decision to decline the information request was delivered to the obligated entity. The staff costs in connection with judicial proceedings regarding the rights and duties established by the law spent by the obligated entity in the given period equalled CZK 600, without incurring any legal representation costs in this respect.

d) The list of provided exclusive licenses, including the justification of the necessity to provide an exclusive license:
In the given period, no request was processed pursuant to provisions regulating a license or sub-license contract with respect to the provision of information.

e) The number of complaints submitted pursuant to Section 16a, the reasons for their submission and a brief description of their handling.
In the given period, 2 complaints against the procedure of handling the information request were submitted in total. In the first case, the complaining party objected to the unjustified request of the obligated entity requiring the applicant to provide additionally the authorisation of its legal representative, which the applicant acceded to later in the proceedings. In the second case, the complaining party objected to the fact that the obligated entity failed to provide information in the required scope without any justification and without issuing any declining decision. The procedure of the obligated entity was confirmed as correct under the decision regarding both complaints because in either case the objections of the complaining party were not deemed justified.

REPORT ON RELATIONS BETWEEN RELATED PARTIES FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors of České dráhy, a.s., with its registered office in Prague 1, Nábřeží L. Svobody 1222, corporate ID: 70994226, registered in the Register of Companies maintained by the Municipal Court in Prague, Section B, Insert 8039, presents the following

REPORT ON RELATIONS BETWEEN RELATED PARTIES

prepared under Section 66a (9) of Act 513/1991 Coll., the Commercial Code, as amended, (hereinafter the "Report on Relations") for the reporting period from 1 January 2011 to 31 December 2011.

I. THE CONTROLLING ENTITY AND THE ENTITY PREPARING THE REPORT ON RELATIONS

For the purposes of the Report on Relations, the controlling entity is the Czech Republic (hereinafter the "State" or "CR").

The controlled entity for the purposes of the Report on Relations is České dráhy, a.s. (hereinafter the "Company" or "ČD"), with its registered office in Prague 1, Nábřeží L. Svobody 1222, corporate ID: 70994226, registered in the Register of Companies maintained by the Municipal Court in Prague, Section B, Insert 8039.

The related parties for the purposes of the Report on Relations include entities controlled, directly or indirectly, by the State. We have identified the related parties using the following criteria:

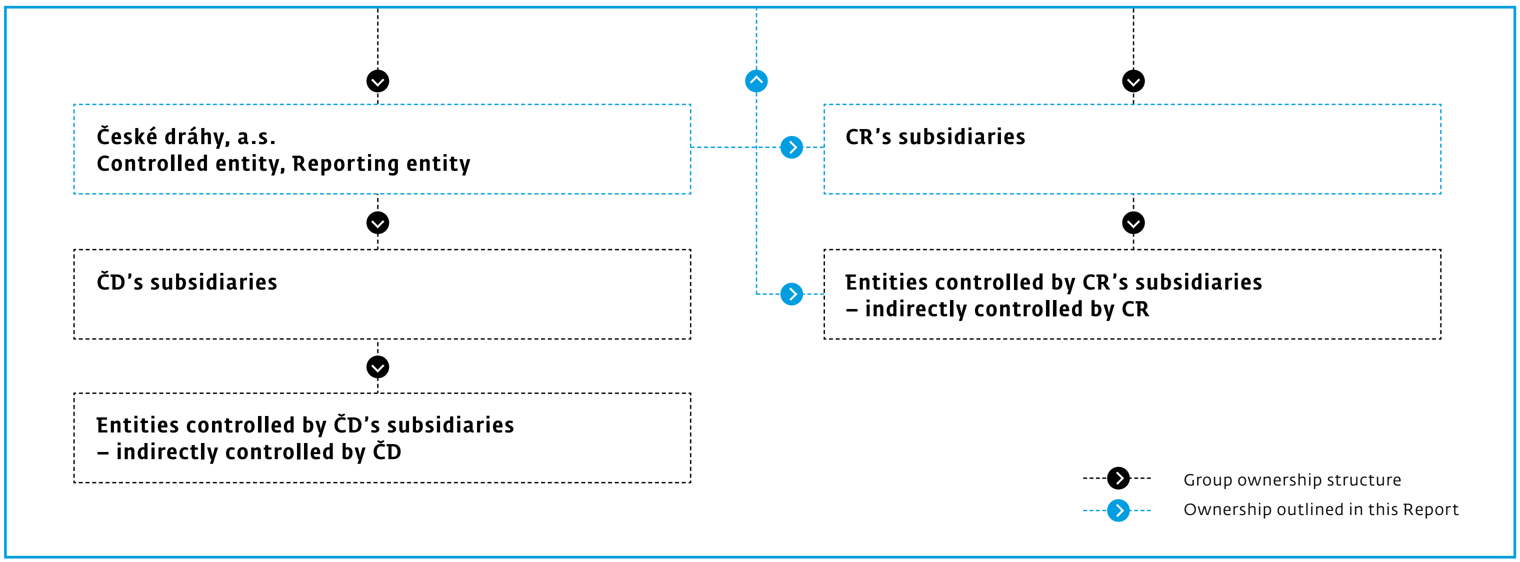
1) The entity must be a joint stock company in which the State holds an equity interest of 40-100%. The list of such entities is outlined in Appendix 1 and was prepared according to the information published on the website of the Ministry of Finance of the Czech Republic that can be found under:
http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/fnm_akciove_spolec.html?year=PRESENT

2) The entity must be a business company controlled by an entity specified in paragraph 1). From these entities, the Report on Relations only includes entities of which the Company is aware, with which it concluded contracts for 2011 or to/from which it provided/received supplies in 2011.

The Company's Board of Directors declares that it identified relations between relevant related parties and described the relations in the Report on Relations.

II. CHART OF RELATIONS IN THE GROUP

CZECH REPUBLIC – STEERING COMMITTEE*
CONTROLLING ENTITY:



* The Czech Republic carries out the rights of the shareholder through the Company's Steering Committee. The Steering Committee is comprised of the relevant employees of the Ministry of Transport (three members), the Ministry of Finance (one member), the Ministry of Defence (one member), the Ministry of Industry and Trade (one member) and the Ministry of Regional Development (one member), authorised by the Government in writing.

III. CONTRACTS CONCLUDED WITH RELATED PARTIES

This list below outlines the contracts concluded by the Company and the entities related to the Company that were in effect in 2011.

ČEPRO, a.s.

Contract	Description
E296-DS-0091/07-A	Water and sewerage

ČEZ Distribuce, a. s.

Contract	Description
E297-10_NN_1_02210574	On the connection of an off-take device
E297_9_NN_1_01927964	On the connection of an off-take device
E166-SML_D-EE-0577130	On joint services for the supply of electricity
E166-SML_D-EE-1074230	Electricity supply – Hlinsko, Nádražní 545
E408-03186059	Electricity Borová
E296-DS-0066/10-G	Electricity
E294-S/0070/2009	Implementation contract Z_S24_12_8120019117
E292-S-02909/11	Contract for future contracts on the connection of an off-take device in Frýdek st.
E292-S-02924/11	Contract on the connection of an off-take device – Hanušovice
E296-DS-0014/11-G	Electricity

ČEZ Prodej, s.r.o.

Contract	Description
E166-SML_D-EE-1074230	Electricity supplies - Hlinsko, Nádražní 545
E297-10_NN_1_02438410	On the connection of an off-take device
E166-SML_D-EE-0577130	On joint services for the supply of electricity
E294-10/CEZDI/02245076	Contract on joint services for the supply of electricity
E294-S/0007/2011	Contract on joint services for the supply of electricity
E296-DS-0105/10-G	Electricity
E296-DS-0106/10-G	Electricity
E297_9_NN_1_0010308206	On the connection of an off-take device
2012295510120	ČEZ Prodej, REST LNL electricity
E297-10_NN_1_02810919	On electricity connection
E297-11_NN_1_02852487-O	Off-take device connection
E297-11_NN_1_02946314-O	Off-take device connection
E297-11_NN_1_03023458-O	Off-take device connection
E297-11_NN_1_03041523	Contract on the connection of off-take devices
2010051505680	Contract on electricity supplies from high-voltage networks
2010051506857	Electricity supplies from very high-voltage and high-voltage
E297-10_NN_1_02688787	networks for 2011
E297-11_NN_1_03104725	On electricity connection – Blížejov
E297-10_NN_1_02688787	Pavlovice electricity connection
E297-11_NN_1_03104725	Připojení elektrické energie Pavlovice

ČEZ Teplárenská, a.s.

Contract	Description
E166-SML_D-EN-T-007TRU	Supplies of heat to PJ TRU
E294-T/0003/2009	Contract on heat supplies 6990
E294-T/680500021	Contract on heat supplies 68050002_1
E296-DS-0018/10-C	Gas supplies
E296-DS-0197/07-C	Heat supplies
E296-DS-0198/07-C	Heat supplies
E296-DS-0232/08-T	Heat supplies
E166-SML_D-EN-T-003TRU	Heat supplies

ČEZ, a. s.

Contract	Description
E296-DS-0194/07-C	Heat supplies
E296-DS-0223/08-A	Water and sewerage

IV. OTHER RELATIONS

The Company made no other legal acts or took no other measures in the interest or at the initiative of related parties.

V. OTHER INFORMATION

Credibility of information: Confidential information in the group comprises information and facts that are part of related parties' business secret and information that was designated as confidential by any group member. In addition, confidential information includes any business information that could, on its own or in connection with other information, cause damage to any person within the group. For this reason, the Report on Relations contains no information on the prices (or amounts) of construction work, supplies, services or the relevant amounts.

The auditor's report on the Report on Relations: This Report on Relations between the related parties was reviewed by the auditor. The auditor's report is included in the Annual Report of the České dráhy Group for the year ended 31 December 2011.

VI. DECLARATION

All the above-specified contracts and amendments were concluded and the performance and counter-performance was provided under standard business conditions. The Company suffered no detriment arising from the business relations.

VII. CONCLUSION

The Company's statutory body prepared the Report of Relations within the deadline stipulated by law. The Report on Relations was prepared to the best of the Company's knowledge and belief, using available data and documents and taking all reasonable efforts. The scope of the Czech Republic's group was identified using the data provided by the shareholder. The auditor's report is included in the Annual Report of the ČD Group. The Report was submitted for review to the Supervisory Board which will provide its statement at the Company's General Meeting.

In Prague on 10 April 2012

Petr Žaluda
Chairman of the Board of Directors
České dráhy, a.s.

APPENDIX 1

LIST OF JOINT STOCK COMPANIES CONTROLLED BY THE STATE FROM 1 JANUARY 2011 TO 31 DECEMBER 2011 ACCORDING THE WEBSITE OF THE MINISTRY OF FINANCE:

Company	Corporate ID	ČR's shareholding	Note
Exportní garanční a pojišťovací společnost, a. s.	45279314	40.00	
Severočeské mlékárny a.s. Teplice, in bankruptcy	48291749	40.78	
Česká exportní banka, a. s.	63078333	41.60	
Ormilk a.s., in bankruptcy	60109092	46.99	
Municipální finanční společnost, a. s. (abbreviated: MUFIS, a. s.)	60196696	49.00	
ČMFL, a. s.	25541889	51.72	
ČEZ, a.s.	45274649	69.37	
BH CAPITAL, a. s.	00546682	71.89	
Výzkumný a zkušební letecký ústav, a. s.	00010669	92.16	
České aerolinie, a. s.	45795908	95.69	
VIPAP VIDEM KRŠKO d.d.		96.50	Slovenia
HOLDING KLADNO, a.s., in liquidation	45144419	96.85	
ČEPRO, a. s.	60193531	100.00	
Český Aeroholding, a. s.	24821993	100.00	Incorporated on 11 March 2011
Explosia, a. s.	25291581	100.00	
Galileo Real, k.s.	26175291	100.00	
Hotelinvest, a. s., in bankruptcy	0025197	100.00	
IMOB, a. s.	60197901	100.00	
JUNIA s.r.o., in liquidation	45788740	100.00	22 Nov 2011 – petition for deletion from the Register of Companies submitted
JUNIOR centrum, a. s., in liquidation	48154946	100.00	
Letiště Praha, a. s.	28244532	100.00	
MERO ČR, a.s.	60193468	100.00	
PPP Centrum a. s.	00013455	100.00	
PAL, a.s., in liquidation	00211222	100.00	Deleted from the Register of Companies on 4 Feb 2011
PRISKO a. s.	46355901	100.00	
STAVOCENTRAL, a. s., in liquidation	47116943	100.00	
STROJÍRNY TATRA PRAHA, a. s., in liquidation	00674311	100.00	
THERMAL – F, a. s.	25401726	100.00	

LIST OF USED ABBREVIATIONS

Abbreviation	Description
ADPV	Operational work done data archive
CAPEX	Capital expenditure
CER	Community of European Railways
ČD	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
ČDT	ČD - Telematika a.s.
CIV	Unified law for the passenger international railway transport
DKV	Rolling stock depots
DTOP	Passenger transport data market
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, deduction and appreciation
EC	Passenger train category of higher quality (EuroCity)
ETCS	European Train Control System
EU	European Union
EUROFIMA	European Company for the Financing of Railway Vehicle Stock
GSM-R	Global System for Mobile Communications-Railways
GVD	Train transport flowchart
Hrtkm	Gross tonne kilometres (the total of products of transport weights of trains and transport distance)
IC	Passenger train category of higher quality (InterCity)
IDS	Integrated transport system
IFRS	International Financial Reporting Standards
JLV	Jídelní a lůžkové vozy, a.s.
KASO	SW application for setting up the turnarounds of the trains
KOP	Complex stay at a health resort

Abbreviation	Description
NUTS	Nomenclature of statistical regional units
Oskm	Passenger kilometres (the total of products of the number of paying transported passengers and distance–related transport fees)
OSŽ	Odborový svaz železničářů/Railway Workers Union
OSŽD	Organisation for Railway Cooperation
PARIS	Sale and Reservation Information System
PJ	Operating center
POP	Portable point of sale
PP	Operating workplace
PSO	Operationg center of repairs
ROCE	Return on capital employed
SAP BW	Business warehouse
SC	Passenger train category of highest quality (SuperCity)
SFDI	State Fund for Transport Infrastructure
SMPS	An agreement on the passenger international transport
SŽDC	Správa železniční dopravní cesty, state organisation
TP 412	Technological project for the evidence of the operational data of traction vehicles
TSI	Technical specifications of interoperability
UIC	International Union of Railways
UNIPOK	Versatile ticket office
Vlkm	Train kilometres (the total of products of the number of trains and distances travelled)
VUZ	Výzkumný Ústav Železniční, a.s.
ZPP	Preventive health care
ZVS	Obligation for fulfilling the provision of public service
ŽST	Train station

IDENTIFICATION AND CONTACT INFORMATION

NAME OF THE COMPANY	České dráhy, a.s.
REGISTERED OFFICE	Praha 1, Nábřeží L. Svobody 1222, PSČ 110 15
CORPORATE ID	70994226
TAX ID	CZ70994226
REGISTER OF COMPANIES	Prague
FILE NO	Section B, File 8039
TELEPHONE	972 111 111
FAX	972 232 498
E-MAIL	info@cd.cz info@cdcargo.cz
WEBSITES	www.cd.cz www.ceskedrahy.cz www.cdcargo.cz www.cdvuz.cz www.dpov.cz www.cdt.cz www.jlv.cz