IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OR TO ANY U.S. PERSON OTHER THAN AS PERMITTED BY REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES (AS DEFINED IN THE PROSPECTUS) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS OR ANY U.S. PERSON. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS REQUIREMENT MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the Notes, prospective investors must be located outside the United States and must not be U.S. persons (within the meaning of Regulation S under the Securities Act). This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to the Issuer and to Barclays Bank PLC, Citigroup Global Markets Limited and ING Bank N.V., London Branch (together, the "**Joint Lead Managers**") that you are not a U.S. person; you are located outside the United States; the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia; and that you consent to delivery of such Prospectus by electronic transmission.

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

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

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the final prospectus to be made available to the public in due course. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers or any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

České dráhy, a.s.

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

EUR 300,000,000 4.125 per cent. Notes due 2019

The issue price of the EUR 300,000,000 4.125 per cent. Notes due 2019 (the "**Notes**") of České dráhy, a.s. (the "**Issuer**" or "**ČD**") is 99.821 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 23 July 2019 (the "**Maturity Date**"). The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Czech Republic. In addition, the holder of a Note may, by the exercise of the relevant option, require the Issuer to redeem such Note at its principal amount in the event of a Put Event (as defined in and in accordance with Condition 7). See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will bear interest from and including 23 July 2012 at the rate of 4.125 per cent. per annum payable annually in arrear on 23 July in each year commencing on 23 July 2013. Payments on the Notes will be made in EUR without deduction for or on account of taxes imposed or levied by the Czech Republic to the extent described under "*Terms and Conditions of the Notes—Taxation*".

This Prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the Luxembourg competent authority for the purpose of Article 13 of Directive 2003/71/EC, as amended by Directive 2008/11/EC, Directive 2010/73/EU and Directive 2010/78/EU (the "**Prospectus Directive**") as a prospectus, and constitutes a prospectus for the purposes of Article 5.3 of the Prospectus Directive. Application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market. In line with Article 7(7) of the Luxembourg Law on Prospectuses for Securities of 10 July 2005, by approving this Prospectus the CSSF assumes no responsibility and gives no undertaking as to the economic or financial soundness of the transaction and the quality or solvency of the Issuer.

The Notes are expected upon issue to be rated by Moody's Investors Service Ltd. ("**Moody's**"). Moody's is established in the European Community and registered under Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulation (EU) No 513/2011 and Directive 2011/61/EU (the "**CRA Regulation**"). The list of credit rating agencies registered in accordance with the CRA Regulation is available on the website of the European Securities and Market Authority ("**ESMA**") (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE NOTES ARE BEING OFFERED OUTSIDE THE UNITED STATES BY THE JOINT LEAD MANAGERS (AS DEFINED IN "*SUBSCRIPTION AND SALE*") IN ACCORDANCE WITH REGULATION S ("REGULATION S") UNDER THE SECURITIES ACT, AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Notes will be issued in registered form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "**Global Note Certificate**") registered in the name of the nominee for, and deposited with, the common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Individual note certificates ("**Note Certificates**") evidencing holdings of Notes will only be available in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".

Joint Lead Managers

BARCLAYS **CITI** **ING**

18 July 2012

CONTENTS

IMPORTANT NOTICES

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

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

Neither the Issuer nor any Joint Lead Manager has authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

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

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

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

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

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

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

In connection with the issue of the Notes, Barclays Bank PLC, Citigroup Global Markets Limited and ING Bank N.V., London Branch (the "Stabilising Managers") (or persons acting on behalf of the Stabilising Managers) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Managers (or persons acting on behalf of the Stabilising Managers) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Managers (or persons acting on behalf of the Stabilising Managers) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

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

When relying on forward-looking statements, investors should carefully consider the foregoing risks and uncertainties and other events, especially in light of the political, economic, social and legal environment in which the Issuer operates. Factors that might affect such forward-looking statements include, *inter alia*, overall business and government regulatory conditions, changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations), interest rate fluctuations and other capital market conditions, including foreign currency exchange rate fluctuations, economic and political conditions in the Czech Republic and other markets, and the timing, impact and other uncertainties of future actions. See ''*Risk Factors*''. The Issuer does not make any representation, warranty or prediction that the factors anticipated by such forward-looking statements will be present, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

The Issuer undertakes no obligation, and does not intend, to publicly update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

INFORMATION SOURCED FROM THIRD PARTIES

Certain information contained in this Prospectus has been sourced from third parties including, without limitation, information published and/or provided by the Ministry of Transportation of the Czech Republic (the ''**Ministry of Transportation**''), the European Investment Bank (the ''**EIB**''), Eurostat, the Union Internationale des Chemins de Fer, SŽDC and the Czech Statistical Office (*Český statistický úřad*), which, in each case, are independent sources. Where information has been sourced from a third party, the source has been identified, the information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which could render the reproduced information inaccurate or misleading. While the Issuer believes that the information sourced from third parties, which is reproduced in this Prospectus, is reliable, the Issuer has not independently verified such information and cannot guarantee its accuracy or completeness.

OVERVIEW

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

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

The Issuer:	České dráhy, a.s., incorporated in the Czech Republic
Joint Lead Managers:	Barclays Bank PLC, Citigroup Global Markets Limited and ING Bank N.V., London Branch
The Notes:	EUR 300,000,000 4.125 per cent. Notes due 2019
Issue Price:	99.821 per cent. of the principal amount of the Notes.
Issue Date:	Expected to be on or about 23 July 2012.
Risk Factors:	There are certain factors that may adversely affect the Group's business, results of operations or financial position and the Issuer's ability to fulfil its obligations under Notes. These include certain business, industry, country and other risk factors. For detailed analysis of these risk factors, see ''*Risk Factors—Risk Factors Related to the Group's business*'' below. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes. For detailed analysis of these risk factors, see ''*Risk Factors—Risks Relating to the Notes*'' below.
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer to finance a portion of its capital investment plan, including primarily for the purchase and modernisation of rolling stock, and the repayment of a part of the Issuer's outstanding long-term and short-term debt. See ''*Use of Proceeds*''.
Interest:	The Notes will bear interest from and including 23 July 2012 at a rate of 4.125 per cent. per annum payable annually in arrear on 23 July in each year commencing 23 July 2013.
Status:	The Notes are senior, unsubordinated, unconditional and unsecured obligations of the Issuer.
Form and Denomination:	The Notes will be issued in registered form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the ''**Global Note Certificate**'') registered in the name of a nominee for, and deposited with, the common safekeeper for Euroclear Bank SA/NV (''**Euroclear**'') and Clearstream Banking, *société anonyme* (''**Clearstream, Luxembourg**''). Individual note certificates (''**Note Certificates**'') evidencing holdings of Notes will only be available in certain limited circumstances. See ''*Summary of Provisions relating to the Notes in Global Form*''. The Global Note Certificate is to be held under the New Safekeeping Structure, in a manner that would allow the Notes to be eligible as collateral for Eurosystem intra-day credit and monetary policy operations.
Final Redemption:	Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on the Maturity Date,

	subject to Condition 8 (*Payments*) in the "*Terms and Conditions of the Notes*".
Optional Redemption:	Upon the occurrence of a Put Event as defined below, each Note will be redeemable at the option of the holder thereof, as further described in Condition 7 (*Redemption and Purchase*) in the "*Terms and Conditions of the Notes*".
Tax Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, for taxation reasons, in accordance with Condition 7 (*Redemption and Purchase*) in the "*Terms and Conditions of the Notes*".
Negative Pledge:	The terms of the Notes contain a negative pledge provision as further described in Condition 4 (*Negative Pledge*) in the "*Terms and Conditions of the Notes*".
Cross Default:	The terms of the Notes contain a cross default provision as further described in Condition 10(c) (*Cross-default of Issuer or Subsidiary*) in the "*Terms and Conditions of the Notes*".
Rating:	The Notes are expected upon issue to be rated by Moody's.
Withholding Tax:	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer will be made free and clear of withholding taxes of the Czech Republic unless the withholding of such taxes is required by law. In that event the Issuer will gross-up the payment, subject to certain exceptions, all as described in Condition 9 (*Taxation*) in the "*Terms and Conditions of the Notes*".
Governing Law:	The Notes, the Fiscal Agency Agreement, the Deed of Covenant and any non-contractual obligations arising out of or in connection with them, shall be governed by, and construed in accordance with English law.
Listing and Trading:	Applications have been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market.
Clearing Systems:	Euroclear and Clearstream, Luxembourg
Selling Restrictions:	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, Switzerland and the Czech Republic. See "*Subscription and Sale*".
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the risks associated with the Notes. These are set out under "*Risk Factors*" and include the fact that the Notes may not be a suitable investment for all investors.
Financial Information:	See "*Selected Financial and Operating Information*" and "*Financial Statements and Auditors' Reports*".
Security Codes:	ISIN: XS0807706006
	Common Code: 080770600

RISK FACTORS

Prospective investors should read the entire Prospectus. Words and expressions defined in the ''Terms and Conditions of the Notes'' below or elsewhere in this Prospectus have the same meanings in this section:

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of investing in the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

RISK FACTORS RELATED TO THE GROUP'S BUSINESS

Business risks

The Group may be adversely affected by changes to its structure

The government of the Czech Republic (the ''**Government**'') has published its intention to restructure ČD and its subsidiaries (the ''**Group**'') pursuant to its resolution dated 25 July 2007 (the ''**Government Resolution**'') approving the document ''*Restructuring of joint stock company ČD and SŽDC*''. The key steps implemented within this restructuring process so far are (i) the incorporation of ČD Cargo, a.s. (''**ČD Cargo**'') as a 100 per cent. owned subsidiary of ČD and the contribution of ČD's freight transportation business, including approximately 11,800 employees, to ČD Cargo's registered capital in 2007, (ii) the transfer of a part of ČD's business related to the operation of infrastructure management including, among others, approximately 10,000 employees to the state-owned Railway Route Administration (*Správa železniční dopravní cesty, státní organizace*) (''**SŽDC**'') for a purchase price of approximately CZK 12 billion in 2008, and (iii) the transfer of a part of ČD's business related to the operation of the railway operation services including, among others, approximately 9,300 employees to SŽDC for a purchase price of CZK 389.9 million on 1 September 2011. Certain assets necessary for the function of the railway operation remain to be transferred out of ČD in the course of this restructuring process. These assets include railway operation buildings (other than railway station buildings), plots of land directly below the railway routes and certain other assets necessary for the railway operation, which are envisaged to be transferred to SŽDC. Railway station buildings are envisaged to be transferred either to SŽDC or to a newly formed subsidiary of ČD The details of the contemplated transfers, including the compensation for such purposes, are currently being discussed and therefore are not yet fully known or certain (please see ''*Description of the Issuer—Property—Expected Sale of Property—Expected Sale of Property Related to the Railway Operation*''). Additionally, the Government Resolution together with the Government resolution dated 9 January 2008 contemplate transferring certain core businesses, such as passenger transport and real estate management, by ČD to newly formed subsidiaries. The newly formed subsidiary to which the passenger transport business would be transferred may create its own new subsidiaries for the purpose of conducting business in certain market segments, such as providing low-cost passenger transport services.

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

The Group may be unable to obtain sufficient funding for investments in its assets and their maintenance

The Group may encounter situations when it is not able, for various reasons, to obtain sufficient funding for investments in its assets and their maintenance. For example, ČD is planning to utilise a significant part of the proceeds of the expected sale of certain assets to SŽDC and the expected sale of some of ČD's other non-core assets to private investors (please see ''*Description of the Issuer — Property — Expected Sale of Property*'') for the purpose of funding its investment in the modernisation of rolling stock. Should any of these sales of non-core assets not occur or be postponed, or should the proceeds of any of these sales be lower than expected by ČD's management as of the date of this Prospectus, this could have a material adverse effect on the Group's ability to fund such investments. Additionally, in order to be able to fund investments for the modernisation of rolling stock, the Group may need to incur a significant amount of further financial indebtedness, thereby increasing the risk that the total amount of the Group's financial indebtedness will reach a level at which the incurrence of any further financial indebtedness would not be possible or deemed commercially reasonable by ČD's management. This could have a material adverse effect on the Group's ability to fund such investments.

Insufficient investment in the Group's assets and their maintenance may result in obsolescence and deterioration of such assets, which may adversely affect the quality of service provided to customers (including an increased risk of accident or injury) and the ability of the Group to compete in tenders for the provision of passenger rail transportation services to the Czech Republic (the "**State**") and the Czech regions, including the city of Prague (the "**Czech Regions**"). In addition, insufficient investment in the Group's assets and their maintenance may result in a breach of certain agreements with third parties (for example, insurance contracts and contracts with the State and the Czech Regions concerning the provision of public service passenger transportation), leading to increased liabilities of the Group, and may cause the members of the Group to lose their licences. The above could all have a material adverse effect on the Group's business, results of operations or financial position.

The Group is exposed to competition from other transport companies and may be adversely affected by technological advantages developed by such competitors

Due to on-going liberalisation of passenger transport services, it may also become less certain that ČD will be awarded public railway passenger contracts in the future. If the current long-term contracts in place with the State, and the Czech Regions were to be revoked, not renewed or in some way materially reduced or amended then this could have a material impact on the Group's business, results of operations or financial position. There has been a challenge to ČD's dominant position in certain areas and it is possible that other passenger rail operators (including Czech low-cost passenger rail operators, as well as significant passenger rail operators from neighbouring countries) will increasingly compete on the regulated or commercial routes in the future, which may have a material adverse impact on the Group. For example, in September 2011, privately held RegioJet a.s. started operating its own regular passenger service on the main train route in the Czech Republic between Prague and Ostrava, which had until then been operated solely by ČD, and privately held company LEO Express a.s. published its intention to commence operating its own regular passenger service on this route from December 2012. According to statements made by each of RegioJet a.s. and LEO Express a.s., these companies are also looking to commence operating regular passenger services on other routes which are currently exclusively operated by ČD In April 2012, RegioJet a.s. publicly announced that German Deutsche Bahn has decided not to cooperate with ČD on the international route between Prague and Hamburg and instead to negotiate exclusively with Regiojet a.s. regarding such cooperation (please see "*Description of the Issuer—Business Overview—Commercial*"). This and any further increase in competition may have a material adverse effect on the Group's business, results of operations or financial position.

ČD Cargo currently competes against other companies that provide rail freight transportation, truck freight transportation and, to a smaller extent, ship carriers and providers of tube transportation systems. The European rail freight transportation business is highly concentrated and ČD Cargo's ability to efficiently compete in the market may depend on its ability to form strategic alliances or other forms of cooperation with rail freight operators in other neighbouring countries. Should ČD Cargo fail to establish such strategic alliances or other forms of cooperation or should ČD Cargo lose a significant business or customer to a competitor, this could have a material impact on the Group's business, results of operations or financial position.

Any technological or other advantage developed by a competitor may also have a material adverse impact on the Group and, in particular, its results of operation or financial position.

The Group as a provider of transport services may be adversely affected if it is held responsible for damage caused to third parties or if there is a shift in the public perception of the attractiveness of the Group and of its safety record

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

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

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

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

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

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

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

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

The Group may be adversely affected by industrial action triggered by the labour unions or third parties

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

In April 2012, labour unions active within the Group indicated that they are considering conducting a strike later in 2012. While the labour unions have declared that this strike is intended as a protest against the Government's policies and not directly against ČD, this or any other strikes could have a negative impact on the Group's business, financial condition and results of operations.

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

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

The Group is exposed to risks arising from investment activities

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

The Group is exposed to commodity risks

Purchases of fuel or electricity represent significant costs to the Group which can be subject to price volatility. Accordingly, any significant increases in fuel or electricity prices could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, the availability of fuel or energy can be subject to limitations on their supply, including due to cancellations or limitations on extraction or import of gas or other commodities, outages or limitations on power production or refinery production, damaged transmission infrastructure, political uprisings, or wars or to laws (which may or may not come into effect) or other means stipulating mandatory allocation or contribution systems of such supplies. Should significant stoppage or lack of availability of fuel or energy supplies occur, the Group's business, financial condition and results of operations may be adversely affected in the respective accounting year (please see "*Description of the Issuer—Business Strategy—Commodity Risk*").

The Group is exposed to interest rate risks

The Group utilises external financing that bears floating or fixed interest rates, including bank loans, domestic bonds, Eurobonds and promissory notes. Any changes in floating interest rates or any changes in fixed interest rates of contracts to be entered into, or the Group's limited ability to enter into such contracts bearing or resulting in fixed interest rates could have a material adverse effect on the Group's business, financial condition and results of operations (please see "*Description of the Issuer—Business Strategy—Interest Rate Risk*").

The Group is exposed to liquidity risks

The Group may have, in certain cases in the future, limited access to short-term financing or may incur obstacles in terms of securing short-term funding when experiencing liquidity issues. For example, some financial institutions may not extend short-term credit lines or promissory note facilities to the Group. The exposure to liquidity constraints could have a material adverse effect on the Group's business, financial condition and results of operations (please see "*Description of the Issuer—Business Strategy—Liquidity Risk*").

The Group is exposed to foreign currency risk

ČD is exposed to foreign currency exchange rate risk, mainly in relation to the euro, predominantly arising from ČD Cargo's operations. Any loss resulting from a fluctuation in the euro or any other foreign currency exchange rate could have a material adverse effect on the Group's business, financial condition and results of operations. (please see "*Description of the Issuer—Business Strategy—Foreign Currency Exchange Rate Risk*").

The Group is exposed to credit risk

The Group is exposed to credit risk, mainly in relation to customers of ČD Cargo, suppliers of rolling stock and financial institutions to which the Group has mark-to-market exposure. The Group monitors its exposure to the credit risk of such third parties on a regular basis. Nonetheless, such monitoring cannot guarantee that the Group will prevent all losses or liquidity constraints incurred in relation to credit issues of third parties. Any such credit issues could have a material adverse effect on the Group's business, financial condition and results of operations.

Additionally, as the top 20 clients of ČD Cargo account for more than 75 per cent. of ČD Cargo's revenues, any deterioration in the credit quality of one or more such clients could have a material adverse effect on the Group's business, financial condition and results of operations (please see "*Description of the Issuer—Business Strategy—Credit Risk*").

The Group is exposed to operational risks

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

The Group is exposed to risks of railway accidents. Such accidents can result in damage to the Group's assets, expose the Group to liability towards third parties and negatively affect the Group's reputation. This could have a material adverse effect on the Group's business, results of operation and financial position (please see "*Description of the Issuer—Business Strategy—Risk Management*").

ČD relies on compensation payable to it by the State and the Czech Regions in respect of public passenger rail services

ČD provides both long distance and regional passenger rail services in the public interest pursuant to long-term contracts entered into between ČD on one hand and the Czech Regions or the State on the other. The State compensates ČD for verifiable losses incurred by ČD when providing such long distance passenger rail services. The Czech Regions, including the city of Prague, compensate ČD for verifiable losses incurred by ČD when providing such regional passenger rail services provided that a part of such compensation payable by the relevant region to ČD is funded by the State pursuant to the "*Memorandum on Ensuring Stable Financing in the Regional Railway Passenger Transport*" entered into between, among others, the Czech Republic and the Czech Regions in 2009 (the "**Memorandum**").

In its resolution dated 27 April 2011, the Government approved the freezing of expenditure to be used to fund the railway transportation and combined transportation (which may involve railway transportation) in 2011 in the amount of CZK 1,866 million. The Government released the restrictions on such expenditure by its resolution dated 8 June 2011. In its resolution No. 590 dated 20 July 2011, the Government resolved to reduce the funds payable to the Czech Regions under the Memorandum from CZK 2.649 billion to CZK 2.049 billion in each of the years from 2012 to 2014, thereby disregarding the terms of the Memorandum. While the Government has never formally repealed this resolution, the State in 2012 up to the date of this Prospectus has nevertheless been providing the Czech Regions with the amount of funds, as specified in the Memorandum. Nevertheless, the Group cannot provide any assurance that the Government will follow the terms of the Memorandum in the future. Any failure by the Government to follow the terms of the Memorandum could lead to a decrease in the compensation payable to ČD for verifiable losses incurred by ČD when providing regional passenger rail services. Additionally, as the form and subject matter of the Memorandum are currently being renegotiated, it is not certain that the terms of funding set out in the Memorandum, including the amount of compensation payable by the State to the Czech Regions, may not be altered.

Most of the long-term contracts entered into between ČD and the Czech Regions or the State concerning the provision of rail passenger services by ČD are to expire in 2019. The Group cannot provide any assurance that such contracts will be renewed, or that any such renewal will be on substantially the same terms or for the same scope of services as currently provided.

Any decrease in the compensation payable by the State to the Czech Regions, any failure by the State or any region to pay such compensation to ČD, any failure by the State to fund its part of the compensation payable to ČD by any region or any failure of ČD to renew any of the long-term contracts concerning the provision of rail passenger services to the State and the regions could have a material adverse impact on the Group's business, results of operation and financial position.

The customers of ČD Cargo are relatively concentrated and a loss of some of these customers could have a negative impact on the Group

The customers of ČD Cargo are relatively concentrated, with the top 20 clients of ČD Cargo accounting in aggregate for more than 75 per cent. of ČD Cargo's revenues. If ČD Cargo was to lose any of these customers, it could have a material adverse effect on the Group's business, results of operation and financial position.

The Group is subject to a variety of legal disputes and cannot give any assurances as to their outcome or the sufficiency of their provisions

The Group is involved in a number of legal disputes. As of the date of this Prospectus, the aggregate amount of all claims, for which the amount claimed against the Group has been specified and of which ČD management is aware, is approximately CZK 767.1 million (please see "*Description of the Issuer—Ongoing Material Disputes*"). Litigation and arbitration proceedings are unpredictable and adverse monetary awards or judgments in litigation or arbitral proceedings, individually or in the aggregate, could have a material adverse effect on the Group's business, financial condition and results of operations. Further, such judgments or decisions might include restrictions on the Group's ability to conduct business, which could increase the cost of doing business and limit the Group's prospects for future growth. In addition, any potential loss in litigation or arbitral proceedings may result in negative publicity, thus presenting reputational risks, which could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is involved in a legal dispute with ŠKODA TRANSPORTATION a.s. ("Škoda Transportation")

On 9 April 2004, ČD and Škoda Transportation entered into a purchase agreement for the supply by Škoda Transportation of 20 electrical triple-system locomotives (the "**Purchase Agreement**"). The purchase price for the supply of the locomotives was agreed at approximately CZK 2.7 billion (excluding VAT).

As at the date of this Prospectus, ČD has paid approximately CZK 2.2 billion (including VAT) in connection with the Purchase Agreement. However, certain deadlines for the delivery of the locomotives and for the provision of documentation required for their operation internationally (as specified in the Purchase Agreement) have not been met. Furthermore, certain of the locomotives are still to be delivered (please see "*Description of the Issuer—Business Strategy—Commercial*"). Accordingly, ČD has requested that Škoda Transportation pays a contractual penalty in respect of the delays and for its failure to deliver all of the locomotives in the amount of approximately CZK 734.7 million, as quantified by ČD as of 27 March 2012. However, as ČD and Škoda Transportation are in disagreement as to whether Škoda Transportation is liable for the delayed delivery of the locomotives, ČD has unilaterally set-off its obligation to make certain payments under the Purchase Agreement in the amount of approximately CZK 208.3 million against the contractual penalty claimed from Škoda Transportation (the "**Price Set-Off**"). In July 2012, it was reported that Škoda Transportation had commenced arbitration proceedings against ČD in respect of this dispute. However, as of the date of this Prospectus, ČD has not received any official communication regarding such proceedings.

The Group cannot provide any assurance that Škoda Transportation will comply with the remainder of its obligations under the Purchase Agreement and, if not, whether ČD will be able to recover payments already made. Furthermore, there can be no assurance that ČD will be able to collect the contractual penalty requested, nor can it be ruled out that Škoda Transportation will not demand default interest on the Price Set-Off on the grounds that it is unauthorised. The materialisation of any of these risks could have a material adverse effect on the Group's business, financial condition, results of operations and reputation (please see "*Description of the Issuer—Ongoing Material Disputes*").

ČD has faced allegations that it may have received unlawful State aid

In 2010, RegioJet, a.s. submitted two complaints to the EU Commission against the Czech Republic. One of these complaints concerned the fact that some of the Czech Regions awarded public rail service contracts for the provision of rail services in excess of CZK 150 billion for another 10 to 15 years to ČD without following a proper tender process. According to RegioJet, a.s., this violates principles of non-discrimination and transparency and a part of the compensation provided pursuant to these public service contracts constitutes unlawful State aid. The other complaint alleged that the transfer of a part of ČD's business related to the operation of infrastructure management including, *inter alia*, approximately 10,000 employees from ČD to SŽDC for the purchase price of approximately CZK 12 billion in 2008 (please see ''*Description of the Issuer—Sole Shareholder and Relationship with the State—Restructuring Effort*'' below) represented unlawful State aid. In June 2012, the EU Commission informed the Czech Republic that it considered the complaints submitted by RegioJet, a.s. in 2010 to have been withdrawn because RegioJet, a.s. had not provided it with further information necessary to substantiate the complaints. However, the EU Commission indicated that it may reconsider this decision and reopen the investigation if new evidence were to be provided to it or were otherwise revealed (please see ''*Description of the Issuer—Ongoing Material Disputes*'' below).

Should the EU Commission or any other relevant authority conclude that ČD has received any unlawful State aid, whether based on any new complaint or otherwise, ČD could be required to repay any such amounts together with related interest to the Czech Republic and compensate its competitors for damages incurred as a result of the provision of such amounts. Any of these events could have a material adverse effect on the Group's business, financial condition, results of operations and reputation.

Industry risks

The gradual opening of the Czech passenger rail market to competition

ČD provides the vast majority of passenger rail services in the Czech Republic to the State and the Czech Regions. The Government has declared its intention to gradually tender those services under a competitive process. The Ministry of Transportation has already taken steps in this respect, including publishing a time sheet specifying which railway routes will be subject to public tenders. The time sheet anticipates that the parties successful in such tenders will commence their service on the specified routes in the period from 2014 to 2028, depending on the route in question. Pursuant to the relevant long-term contracts concerning the provision of passenger railway transport services, eight Czech Regions are not allowed to undertake a competitive tender. However, pursuant to the relevant long-term contracts concerning the provision of passenger railway transport services, six Czech Regions and the State are allowed, but not obliged, to do so. Two of these regions have already published their intention to organise tenders in relation to certain specific regional routes in the Official Journal of the EU. Consequently, in any future tender, ČD might not be awarded some or all tendered contracts. ČD's competitors in these public tenders may include Czech low-cost passenger rail operators, such as privately held RegioJet a.s. and LEO Express a.s., as well as significant passenger rail operators from neighbouring countries, such as German Deutsche Bahn and Austrian ÖBB. Should ČD not be awarded some or all tendered contracts, it may have a material adverse effect on the Group's business, results of operations or financial position (please see ''*Description of the Issuer—Business Overview—Passenger Rail Transport—Commercial—Market*'' and ''*Description of the Issuer—Pricing, Compensation and Tariff Regulation—Passenger Rail Transport – Long Distance (domestic and international)—Liberalisation of the regulated long distance passenger transport in the Czech Republic*'').

It is possible that other passenger rail operators (including Czech low-cost passenger rail operators, as well as significant passenger rail operators from neighbouring countries), will increasingly compete on commercial and international routes in the future, which may have a material adverse impact on the Group's business, results of operations or financial position (please see ''*Risk Factors Related to the Group's Business—Business risks—The Group is exposed to competition from other transport companies and may be adversely affected by technological advantages developed by such competitors*'').

ČD Cargo is exposed to the development of, and any deterioration in, certain industries

The vast majority of ČD Cargo's operations consist of the transportation of commodities, including iron and machine industry products, construction materials, chemical products and liquid fuels, wood and paper products, foods and farming products, coal, automotive and other commodities. As a result, ČD Cargo's revenues and results of operations are dependent on the development of the industries which use these commodities. Any significant deterioration in any of these industries could have a material adverse effect on the Group's business, results of operations or financial position.

Country risks

Inability of the Czech Republic or the Czech Regions to discharge their financial obligations when due

A significant amount of ČD's revenues are generated through compensation received from budgets of the State and the Czech Regions. Any inability of the State or the Czech Regions to discharge their financial obligations when due or any austerity measures undertaken by the State or the Czech Regions, may have a material adverse effect on the Group and may harm the Group's ability to meet its liabilities.

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

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

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

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

Czech insolvency law

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

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

The Group is subject to a number of laws and regulations including, among others, Czech and EU railway transport laws, tax laws, environmental protection laws, public procurement laws and anti-trust laws. Changes in these laws or regulations may materially impact the Group.

For example, pursuant to current Czech tax laws (particularly Act No. 235/2004 Coll., on value added tax, as amended) the applicable reduced value added tax ("**VAT**") rate of 14 per cent. and standard VAT rate of 20 per cent. are to be replaced from 1 January 2013 with a uniform VAT rate of 17.5 per cent. Nevertheless, on 11 April 2012 the Government declared its intention to propose an amendment to this law, pursuant to which the applicable reduced and standard VAT rates would be increased by one percentage point each to 15 per cent. and 21 per cent., respectively, in the period from 1 January 2013 to 31 December 2015. As passenger transport in the Czech Republic is subject to a reduced VAT rate and fare prices for non-commercial passenger transport, including the applicable VAT, are capped by a Government regulation, any increase of the applicable VAT rate, whether pursuant to the current law or its contemplated amendment, may lead to lower net income for ČD or a potential outflow of ČD's customers (if the increase of the VAT rate is not followed by an increase in the regulated fare prices). Accordingly, if the applicable VAT rate is increased pursuant to the current law, its contemplated amendment or any other laws, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Additionally, at the beginning of 2012, the Ministry of Transportation announced its intention to propose a new law, which will recodify the current Czech laws regulating railway transportation. According to the information announced by the Ministry of Transportation, the purpose of this recodification is to bring current Czech laws more in line with the relevant EU laws and to take into account the changes which have taken place in the Czech railway transport industry in the past few years. It cannot be ruled out that this recodification or any other changes to the laws regulating railway transport in the Czech Republic will not have an adverse effect on the Group's business, results of operations, financial condition or prospects.

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

The Group is subject to public procurement rules stipulated in the Act (137/2006 Coll.) on Public Contracts, as amended (the "**Public Procurement Act**") when tendering services and supplies with a value exceeding CZK 1 million or CZK 3 million for construction works until 31 December 2013 (in each case excluding the applicable value added tax). In the event of a qualified tender under the Public Procurement Act, the Group may be limited in its ability to procure such tender in a timely manner. This may harm the Group's ability to compete in tenders for both passenger and cargo services and have an adverse effect on the Group's business, financial condition and results of operations.

Risks arising from the opening of the railway passenger market to competition before the necessary conditions have been established

Unlike its competitors, ČD owns a large number of railway stations that are indispensable for the operation of passenger railway transport and bears the costs of their maintenance and operation. These railway stations are publicly accessible for all passengers, irrespective of whether they are using the transportation services of ČD or other passenger railway transport operators. Czech laws do not require other passenger railway transport operators to pay any fees to ČD for using their railway stations. Accordingly, if the Czech Republic does not introduce an obligation for other passenger railway transport operators to pay fees to ČD for using their railway stations or such railway stations are not transferred outside of the Group, the obligation to bear the costs of maintaining and operating such railway stations may put the Group at a disadvantage as compared to its competitors.

Similarly, ČD is obliged to provide subsidised tickets to a select group of persons defined by Czech law. ČD does not receive any compensation for doing so and this obligation does not apply to ČD's competitors. Accordingly, if this obligation continues to apply only to ČD it may put the Group at a disadvantage as compared to its competitors.

Additionally, no single regulator authorised to resolve conflicts between market participants and between market participants and SŽDC has been established. The railway market is heavily regulated in the areas of market access, railway capacity allocation and price-setting, each of which is overseen by a separate regulator. As a result, any such disputes may need to be resolved by recourse to the current three regulating bodies and/or the Czech Courts, which can lead to lengthy, complicated and expensive proceedings. ČD, as the original sole railway services provider, may be more likely to be subject to such proceedings, which may put the Group at a disadvantage as compared to its competitors.

If ČD is at a competitive disadvantage as compared to its competitors for the above reasons or for any other reasons, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

Risks arising from terrorist acts or war conflict

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

Other risk factors related to Czech Republic

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

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

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

Parliamentary and Government composition in the Czech Republic may have an adverse effect on the overall economic stability of the Czech Republic and consequently on the Group's economic and financial situation. In April 2012, the three coalition parties, which up to that time had formed the Government, terminated their coalition. While the leaders of these parties also announced their intention to continue cooperating in respect of approving the earlier proposals by the current Government in Parliament and the current Government subsequently won a vote of confidence in April 2012, ČD can give no assurance that there will be no change in the Government prior to the expiration of its current mandate or that the current or any new Government will continue the economic, fiscal, and regulatory policies of former Governments, nor can there be any assurance that any changes in such policies will not have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

In addition, the Government exercises its rights as the sole shareholder of ČD by means of a Steering Committee (the "**Steering Committee**"), which is to comprise of three members from the Ministry of Transportation, and one member from each of the Ministry of Finance, the Ministry of Defence, the Ministry of Industry and Trade, and the Ministry for Regional Development (please see *"Description of the Issuer—Sole Shareholder and Relationship with the State—The State's shareholder role"*). Accordingly, the Group may be negatively affected by changes to key decision-makers at, and/or the strategy of, any of these ministries. Any such changes could have a material adverse effect on the Group's business, prospects, financial condition or results of operations.

Other risks

Global economic conditions can adversely impact the Group's results

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

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

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

Risks arising from outbreak of pandemic diseases

The Group's business activities could be adversely affected by the outbreak of a pandemic disease that could have an impact on the Group's employees or on demand for passenger services. The Group cannot guarantee that any plans implemented by the Group in respect of the risks associated with the outbreak of any such disease will fully avoid any adverse impacts on the Group.

RISK RELATING TO THE NOTES

There is no active trading market for the Notes

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

New Safekeeping Structure

The Issuer intends that the Notes will be registered on issue in the name of a nominee for Euroclear or Clearstream, Luxembourg as common safekeeper. This does not necessarily mean that the Notes will be recognised as eligible collateral for the Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that the Eurosystem eligibility criteria have been met.

Changes in market interest rates may adversely affect the value of the Notes

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. A drop in the level of market interest rates will have a positive impact on the price of the Notes, as the Notes pay a fixed annual rate of interest. Conversely, an increase in the market interest rate level will have an adverse impact on the price of the Notes. For investors holding the Notes until the Maturity Date, any changes in the market interest rate level during the term will not affect the yield of the Notes, as the Notes will be redeemed at par.

If the Notes are redeemed early, an investor may not be able to reinvest such proceeds in a comparable security

In the event that the Notes are redeemed early in accordance with Condition 7 (''*Redemption and Purchase*'') of the *''Terms and Conditions of the Notes*'', depending on prevailing market conditions at the time, an investor who receives proceeds due to such an early redemption may not be able to reinvest such proceeds in a comparable security at an effective interest rate as high as that carried by the Notes.

Changes to the current tax laws and practices could adversely affect investors

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

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

The Notes may be redeemed prior to the Maturity Date

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

Minimum Denomination

As the Notes have a minimum denomination consisting of EUR 100,000 plus higher integral multiples of EUR 1,000, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 (or its equivalent) that are not integral multiples of EUR 100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Note Certificate in respect of such holding (should Note Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

Credit Rating

Credit or corporate ratings may not reflect all risks. One or more independent rating agencies may assign ratings to the Notes and/or the Issuer. The Notes are expected to be rated by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Such ratings may not reflect the potential impact of all risks related to the structure, the market or additional factors discussed in this section, and other factors that may affect the value of the Notes or the standing of the Issuer. In addition, any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

The Issuer may not be able to finance a put option as required by the Conditions

Upon the occurrence of certain events, the Issuer may be required by a Noteholder to redeem all of the outstanding Notes held by such holder at the principal amount of such Notes, plus accrued and unpaid interest and additional amounts, to the relevant redemption date. If any such event were to occur, there can be no assurance that the Issuer would have sufficient funds available at the time to redeem the aggregate principal amount of the Notes in relation to which the put option is exercised. The exercise of the put option may cause the acceleration of other indebtedness that may be senior to the Notes or rank equally with the Notes. See Condition 7(c) (*Redemption and Purchase—Redemption at the option of Noteholders following a put event*) of the ''*Terms and Conditions of the Notes*''.

The Notes may not be a suitable investment for all investors

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

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

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

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

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

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

Potential investors should not invest in the Notes unless they have the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the prospective investor's overall investment portfolio.

Exchange rate risks and exchange controls may significantly affect an investor's yield on the Notes, the principal value payable thereunder and the market value of the Notes

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Modification and waivers and substitution

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

EU Savings Directive

Under EC Council Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system (the applicable rate of withholding now being 35 per cent.) in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The withholding system is subject to an exception whereby the beneficial owner of the interest or other income elects for the exchange of information instead. A number of non-EU countries and territories including Switzerland have adopted, or agreed to adopt, similar measures (a withholding system in the case of Switzerland) and certain dependent or associated territories of EU Member States have adopted the same measures. The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If an amount of, or in respect of, tax were to be withheld from a payment of principal or interest under a Note, pursuant to the EU Savings Directive, any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. See Condition 9 (*Taxation*) of the "*Terms and Conditions of the Notes*". However, the Issuer is required, as provided in Condition 13 (*Agents*) of the "*Terms and Conditions of the Notes*", to maintain a Paying Agent in a Member State that does not impose an obligation to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive or any such other Directive.

Change in Law

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

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

Additionally, the interpretation of certain provisions of Czech law, in particular commercial, financial and insolvency laws, is not well established due to little precedent upon which to rely in rendering an opinion as to sophisticated commercial and financial transactions between private parties. Furthermore, these laws are subject to changes and interpretation in a manner which cannot be currently foreseen and anticipated, and which may affect the rights and obligations arising in connection with the issue of the Notes.

The market price of the Notes is subject to a high degree of volatility

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of the Czech Republic as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's financial condition or results of operations.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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

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

INFORMATION INCORPORATED BY REFERENCE

The annual non-consolidated financial statements of each of the Issuer and of ČD Cargo in respect of each of the financial years ended 31 December 2011 and 31 December 2010, prepared in accordance with accounting regulations applicable in the Czech Republic (''**Czech GAAP**''), shall be deemed to be incorporated in, and to form part of, this Prospectus, including the information set out at the following pages of the Issuer's and ČD Cargo's 2011 and 2010 financial statements, respectively:

České dráhy a.s.

ČD Cargo a.s.

Copies of the documents specified above as containing information incorporated by reference in this Prospectus are available from the website of the Luxembourg Stock Exchange (*www.bourse.lu*) and, may be inspected during normal business hours at the registered address of the Issuer for 12 months from the date of this Prospectus. Any information not listed in the cross reference list but included in the documents incorporated by reference is given for information purposes only.

TERMS AND CONDITIONS OF THE NOTES

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

The EUR 300,000,000 4.125 per cent. Notes due 2019 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of České dráhy, a.s. (the "**Issuer**") are the subject of a fiscal agency agreement dated 23 July 2012, as amended or supplemented from time to time (the "**Agency Agreement**"), between the Issuer, Citibank, N.A., London Branch as fiscal agent and the other agents named in it. The Notes have the benefit of a Deed of Covenant dated 23 July 2012 (the "**Deed of Covenant**") executed by the Issuer relating to the Notes. The fiscal agent, the registrar, and any transfer agent for the time being are referred to below respectively as the "**Fiscal Agent**", the "**Registrar**" and the "**Transfer Agents**". "**Paying Agents**" means the Fiscal Agent and the paying agents named in the Agency Agreement, which expression includes any other paying agent or paying agents appointed from time to time with respect to the Notes. "**Agents**" means the Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and any other agent or agents appointed from time to time with respect to the Notes. Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to its detailed provisions. The Agency Agreement includes the form of the Notes. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders (as defined below) during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the Registrar and any Transfer Agents, the initial Specified Offices of which are set out below. The holders of the Notes are bound by, and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

All capitalised terms that are not defined in these terms and conditions (the "**Conditions**") will have the meanings given to them in the Agency Agreement. References to "Conditions" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. Form, Denomination and Title

The Notes are serially numbered and in registered form in denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof (each such denomination an "**Authorised Holding**").

The Notes are intended to be issued under the new safekeeping structure and are represented by registered certificates ("**Note Certificates**") and, save as provided in Condition 2(a) (*Transfer*), each Note Certificate shall represent the entire holding of Notes by the same holder.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar at its Specified Office in accordance with the provisions of the Agency Agreement (the "**Register**"). The holder (as defined below) of any Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating the holder. No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

In these Conditions, "**Noteholder**" and "**holder**" means the Person in whose name a Note is registered in the Register (or, in the case of joint holders, the first name thereof).

2. Transfer of Notes

(a) *Transfer:* One or more Notes may, subject to the terms of the Agency Agreement and to Condition 2(c) (*Transfer or Exercise Free of Charge*) and 2(d) (*Closed Periods*), be transferred in whole or in part in an Authorised Holding upon the surrender (at the Specified Office of the Registrar or any Transfer Agent) of the Note Certificate(s) representing such Notes to be transferred, together with the form of transfer endorsed on such Note Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Notes represented by one Note Certificate, a new Note Certificate shall be issued to the transferee in respect of the part transferred and a further new Note Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Notes to a Person who is already a holder, a new Note Certificate representing the enlarged holding shall only be issued against surrender of the Note Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be made available by the Registrar to any Noteholder upon request. A Note may be registered only in the name of, and transferred only to, a named Person or Persons. No transfer of a Note will be valid unless and until entered on the Register.

(b) *Delivery of New Note Certificates:* Each new Note Certificate to be issued pursuant to Condition 2(a) (*Transfer*) shall be available for delivery within five business days of receipt of a duly completed form of transfer and surrender of the existing Note Certificate(s). Delivery of the new Note Certificate(s) shall be made at the Specified Office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer or Note Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk and at the expense of the holder entitled to the new Note Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify.

(c) *Transfer or Exercise Free of Charge:* Note Certificates, on transfer, exercise of an option or partial redemption, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but subject to (i) the payment by the Person making the application for transfer of any tax, duties or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require), (ii) the Registrar being satisfied with the documents of title and/or identity of the Person making the application, and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(d) *Closed Periods:* No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 7(b) (*Redemption for tax reasons*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

(e) *Authorised Holdings:* No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

(f) *Business Day:* In these Conditions, unless otherwise stated, "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in both London and the place of the Specified Office of the relevant Agent.

3. Status

The Notes constitute direct, general, unconditional and, subject to Condition 4 (*Negative Pledge*) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

4. Negative Pledge

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

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

(b) the Issuer shall procure that none of its Subsidiaries will create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or any Guarantee of any Indebtedness, without at the same time or prior thereto (i) securing the Notes equally and rateably therewith or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

In these Conditions:

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

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

(a) any obligation to purchase such Indebtedness;

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

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

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

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

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

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

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

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

(b) amounts raised under any note purchase facility;

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

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

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

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

"**Permitted Security Interest**" means:

(a) any Security Interest in existence on 23 July 2012 to the extent that it secures Indebtedness outstanding on such date;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Limitation on Asset Sales

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

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

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

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

6. Interest

The Notes bear interest from 23 July 2012 (the "**Issue Date**"), at the rate of 4.125 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 23 July in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*).

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

The amount of interest payable on each Interest Payment Date shall be EUR 4,125 in respect of each Note of EUR 100,000 denomination and EUR 41.25 in respect of each integral amount of EUR 1,000 denomination thereafter. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

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

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

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

7. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 23 July 2019, subject as provided in Condition 8 (*Payments*).

(b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable), at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if:

  (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Czech Republic or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 23 July 2012; and

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

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

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

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

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

Upon the expiry of any such notice as is referred to in this Condition 7(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(b).

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

(i) A Change of Control; or

(ii) A Restructuring Event; and

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

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

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

then the Holder of each Note will have the option (the "**Put Option**") (unless, prior to the giving of the Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 7(b) (*Redemption for tax reasons*)) to require the Issuer to redeem that Note on the Optional Redemption Date (as defined below), at 100 per cent. of its principal amount together with (or, where purchased, together with an amount equal to) accrued interest up to but excluding the Optional Redemption Date.

For the purposes of this Condition:

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

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

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

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

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

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

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

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

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

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

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

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

(iii) the composition of assets of the Issuer, including their legal or beneficial ownership, and their related cashflows.

Within three business days of the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a ''**Put Event Notice**'') to the Noteholders in accordance with Condition 16 (*Notices*) specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the Put Option contained in this Condition.

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

Subject to the deposit of any such Note Certificates to the Specified Office of an Agent for the account of the Issuer as described above, the Issuer shall redeem the Notes in respect of which the Put Option has been validly exercised as provided above on the date which is 30 business days following the end of the Put Period (the ''**Optional Redemption Date**''). No Note Certificate, once so deposited with a duly completed Put Option Notice in accordance with this Condition 7(c), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date, the Notes evidenced by any such Note Certificate become immediately due and payable or, upon due presentation of any such Note Certificate on or prior to the end of the Put Period, payment of the redemption moneys is improperly withheld or refused on the relevant Optional Redemption Date, the relevant Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note Certificate at its Specified Office for collection by the depositing Noteholder. For so long as any outstanding Note Certificate is held by an Agent in accordance with this Condition 7(c), the depositor of such Note Certificate and not such Agent shall be deemed to be the holder of the Notes evidenced by such Note Certificate for all purposes.

If the rating designations employed by the Rating Agency are changed from that which is described in the definitions of ''Investment Grade'' above, or if a rating is assigned by another Rating Agency, the Issuer shall determine, with the agreement of the relevant Rating Agency, the rating designations which are most equivalent to the prior rating designations and this Condition 7(c) shall be construed accordingly.

(d) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in sub-paragraphs (a) (*Scheduled Redemption*) to (b) (*Redemption for tax reasons*) above.

(e) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(f) *Cancellation*: All Note Certificates representing Notes so redeemed or purchased by the Issuer or any of its Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Notes shall be cancelled forthwith. Any Note Certificate so surrendered for cancellation may not be reissued or resold and upon such cancellation the obligations of the Issuer in respect of any such Note shall be discharged.

8. Payments

(a) *Principal:* Payments of principal shall be made by euro cheque drawn on, or, upon application by a Noteholder to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest:* Payments of interest shall be made by euro cheque drawn on, or upon application by a Noteholder to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of interest payable on redemption) upon the due date for payment.

(c) *Interpretation:*

In these Conditions:

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

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

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

(d) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) *Payments on business days:* Where payment is to be made by transfer to a euro account (or other account to which euro may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Noteholder shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 8 arriving after the due date for payment or being lost in the mail. In this Condition 8(e), "**business day**" means:

(i) in the case of payment by transfer to a euro account (or other account to which euro may be credited or transferred) as referred to above, any day which is a TARGET Settlement Day; and

(ii) in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, any day on which banks are open for general business (including dealings in foreign exchange and foreign currencies) in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(f) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note Certificate, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(g) *Record date:* Each payment in respect of a Note will be made to the Person shown as the holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the close of business on the relevant Record Date.

9. Taxation

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

(a) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the Czech Republic other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by surrendering the relevant Note Certificate to another Paying Agent in a member state of the European Union; or

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

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

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9 (*Taxation*).

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

10. Events of Default

If any of the following events occurs and is continuing:

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

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

(c) *Cross-default of Issuer or Subsidiary:* (i) any Indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; (ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness; *provided that* the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any Guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds EUR 15,000,000 (or its equivalent in any other currency or currencies); or

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

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

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

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

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

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

(j) *Government intervention:* (i) all or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (ii) the Issuer or any of its Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues, then Noteholders holding not less than one-quarter of the aggregate principal amount of the outstanding Notes may, by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

11. Prescription

Claims against the Issuer for payment in respect of the Notes shall become void unless made within ten years (in the case of principal) or five years (in the case of interest) of the appropriate Relevant Date in respect of them.

12. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

13. Agents

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

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

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 16 (*Notices*).

14. Meetings of Noteholders; Modification

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

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an

Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

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

15. Further Issues

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

16. Notices

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

17. Currency Indemnity

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

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

18. Governing Law and Jurisdiction

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

(b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes) and accordingly, any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in such courts.

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

(d) *Process agent:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part 37 of the Companies Act 2006. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further

Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this sub-paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

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

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

There will appear at the foot of the Conditions endorsed on each Note Certificate the names and Specified Offices of the Paying Agents, the Registrar and any Transfer Agents as set out at the end of this prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Global Note Certificates

The Notes will be represented by a Global Note Certificate that will be registered in the name of a nominee for, and deposited with, the common safekeeper for Euroclear and Clearstream, Luxembourg.

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

Interests in the Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See – ''*Book Entry Procedures*''.

Except in the limited circumstances described below, owners of interests in the Global Note Certificate will not be entitled to receive physical delivery of Note Certificates. The Notes are not issuable in bearer form.

Exchange for Note Certificates

The Global Note Certificate will become exchangeable in whole, but not in part, for Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or (b) any of the circumstances described in Condition 10 (*Events of Default*) of the ''*Terms and Conditions of the Notes*'' occurs.

Whenever the Global Note Certificate is to be exchanged for Note Certificates, such Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Fiscal Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Amendment to the Terms and Conditions of the Notes

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

Payments: Payments of principal and interest in respect of the Notes evidenced by the Global Note Certificate will be made against presentation for endorsement by the Fiscal Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Note Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

Payments on business days: In the case of all payments made in respect of the Global Note Certificate, ''**business day**'' means any day on which the TARGET System is open.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the ''**Record Date**'') where ''**Clearing System Business Day**'' means Monday to Friday inclusive except 25 December and 1 January.

Exercise of Put Option: In order to exercise the option contained in Condition 7(c) (*Redemption and Purchase—Redemption at the option of the Noteholder following a put event*) of the ''*Terms and Conditions of the Notes*'' the holder of the Global Note Certificate must, within the period specified in the

"*Terms and Conditions of the Notes*" for the deposit of the relevant Note Certificate and Put Option Notice (as defined in Condition 7(c) (*Redemption and Purchase—Redemption at the option of the Noteholder following a put event*) of the "*Terms and Conditions of the Notes*") deliver the same to the Specified Office of any Agent. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 16 (*Notices*) of the "*Terms and Conditions of the Notes*", so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System. A Notice will be valid if published, for so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of such exchange or of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Prescription: Claims against the Issuer for payment in respect of the Notes while the Notes are represented by a Global Note Certificate shall become void unless it is presented for payment within ten years (in the case of principal) or five years (in the case of interest) of the appropriate Relevant Date (as defined in Condition 9 (*Taxation*) of the "*Terms and Conditions of the Notes*"), in respect of them.

Meetings: For the purposes of any meeting of Noteholders, the holder of the Notes represented by the Global Note Certificate shall (unless the Global Note Certificate represents only one Note) be treated as two persons for the purposes of any quorum requirements of, a meeting of Noteholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Notes.

Events of Default: If principal in respect of any Note is not paid when due, the Holder of a Note represented by the Global Note Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 23 July 2012 to come into effect in respect of a principal amount of Notes up to the aggregate principal amount in respect of which such failure to pay has occurred in favour of the persons entitled to such payment as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion. However, no such election may be made in respect of Notes represented by the Global Note Certificate unless the transfer of the whole or a part of the holding of Notes represented by the Global Note Certificate shall have been improperly withheld or refused.

Book Entry Procedures

Custodial and depository links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*—Settlement and Transfer of Notes*" below.

Investors may hold their interests in the Global Note Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**", and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of a Global Note Certificate and in relation to all other rights arising under a Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate the common safekeeper by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in a Global Note Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by a Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of a Global Note Certificate in respect of each amount so paid. None of the Issuer, the Fiscal Agent or any other Agent (as named in the Fiscal Agency Agreement), will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in a Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records,

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in a Global Note Certificate held within a clearing system are exchanged for Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer to finance a portion of its capital investment plan, including primarily for the purchase and modernisation of rolling stock, and the repayment of a part of the Issuer's outstanding long-term and short-term debt.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables set out selected consolidated financial information relating to the Group. All information has been extracted from the audited consolidated financial statements of ČD for the years ended 31 December 2011 and 31 December 2010. The audited consolidated financial statements of ČD for the years ended 31 December 2011 and 31 December 2010 have been prepared in accordance with IFRS. The Group's statutory auditor is Deloitte Audit s.r.o.

SELECTED CONSOLIDATED INCOME STATEMENT ITEMS

	Year ended 31 December	
	2010	**2011**
	(CZK thousands)	
Revenues from principal operations(1)	32,559,735	33,838,213
EBITDA(1) (2)	4,650,030	6,671,609
Depreciation and amortisation(1)	-5,605,418	-5,673,463
Financial expenses(1)	-484,054	-716,084
Share of income of associates	1,869	25,586
Net profit (loss) for the period	-980,684	491,197

SELECTED CONSOLIDATED BALANCE SHEET ITEMS

	As of 31 December	
	2010	**2011**
	(CZK thousands)	
Property, plant and equipment(1)	65,037,154	69,682,502
Investment property	2,100,440	2,095,000
Intangible assets	607,538	567,896
Other long-term assets(1)	943,585	1,233,018
Non-current assets(1)	**68,688,717**	**73,578,416**
Inventories	1,330,580	1,130,194
Trade receivables	3,484,872	3,550,338
Cash and cash equivalents	719,461	2,538,315
Other short-term assets	1,267,705	1,814,342
Current assets	**6,802,618**	**9,033,189**
TOTAL ASSETS(1)	**75,491,335**	**82,611,605**
Share Capital	20,000,000	20,000,000
Reserve and other funds	16,567,630	16,616,402
Retained earnings(1)	4,358,201	4,817,974
Non-controlling interest	840,081	866,849
Equity(1)	**41,765,912**	**42,301,225**
Loans and borrowings	12,467,085	20,197,402
Provisions	537,467	221,480
Other long-term liabilities(1)	1,222,671	1,243,904
Long-term liabilities(1)	**14,227,223**	**21,662,786**
Trade payables	8,133,517	7,606,527
Loans and borrowings	6,044,566	6,194,071
Provisions	813,862	1,097,990
Other short-term liabilities(1)	4,506,255	3,749,006
Short-term liabilities(1)	**19,498,200**	**18,647,594**
TOTAL LIABILITIES & EQUITY	**75,491,335**	**82,611,605**

OPERATING INFORMATION

	2010	2011	Difference	2010/2011
				(per cent.)
Passenger transportation				
Number of travellers (millions)	163	166	3	102
Transportation performance (millions of passenger-kilometres)	6,553	6,635	82	101
Traffic performance (millions of train-kilometres)	122.1	121.3	-0.8	99
Average transportation distance (kilometres)	40	40	0	100
Utilisation of the offered capacity (per cent.)	23	24	1	104
Freight transport				
Transportation volume (millions of tonnes)	76.72	78.74	2.02	103
Transportation performance (millions of tariff tonne-kilometres)	13,592	13,872	280	102
Traffic performance (millions of train-kilometres)	25.9	26.2	0.3	101
Average transportation distance (kilometres)	177	176	-1	99

(1) The figures as of and for the year ended 31 December 2010 have been restated. For information regarding this restatement, please see Note 1.6 to the audited consolidated financial statements of ČD as of and for the year ended 31 December 2011. The provided figures as of and for the year ended 31 December 2010 have been extracted from the comparative figures contained in the audited consolidated financial statements of ČD for the year ended 31 December 2011.

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

	Year ended 31 December	
	2010	2011
	(CZK thousands)	
Profit (loss) before interest and tax	-955,388	998,146
Depreciation and amortisation	-5,605,418	-5,673,463
EBITDA	**4,650,030**	**6,671,609**

DESCRIPTION OF THE ISSUER

GENERAL INFORMATION

Incorporation and Registration

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

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

Shareholder

The founder and sole shareholder of ČD is the Czech Republic, which exercises its shareholder rights through a Steering Committee the members of which are government appointees.

Share Capital and Dividends

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

No dividends have been declared or paid since ČD's incorporation. The Articles of Association of ČD do not allow for issuing preferred stock.

ČD benefits from dividends paid by each of its subsidiaries, provided that the subsidiary has generated positive income. The framework dividend policy of the Group stipulates that at least 51 per cent. of the funds made available for dividends are to be paid to ČD. The dividends received by ČD (on an unconsolidated basis) amounted to CZK 83,266 thousand in 2010 and CZK 67,686 thousand in 2009 according to IFRS.

Overview of the Group

The Group is the largest passenger railway transport operator in the Czech Republic, carrying approximately 99.4 per cent. of railway passengers as measured in passenger kilometres in 2010 and 92.6 per cent. of freight rail transportation in the Czech Republic as measured by tariff tonne-kilometres in 2010 according to data from the Ministry of Transportation. According to the preliminary figures from the Ministry of Transportation, the Group carried approximately 98.9 per cent. of railway passengers as measured in passenger kilometres in 2011 and 84.9 per cent. of freight rail transportation in the Czech Republic as measured by tariff tonne-kilometres in 2011.

The Group primarily conducts its operations on the Czech railway network, which is currently ranked the ninth largest railway network within the EU as measured by the length of lines operated in the country. According to the International Union of Railways ("**UIC**"), in terms of the volume of passenger transport, the Group is ranked the tenth largest railway transporter in the EU, providing a transportation link between Eastern and Western Europe. The Group provides freight transportation through its 100 per cent. owned subsidiary ČD Cargo, which according to UIC was ranked the fourth largest railway transporter within the EU, as measured by tonnes carried in 2011.

The Group is a transportation enterprise which operates passenger and freight railway transport (please see "*Description of the Issuer—Business Overview—Passenger Rail Transport*" below for a segmental analysis of the main revenue and cost items), including the provision of:

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

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

Relationship with SŽDC

ČD and SŽDC were incorporated on 1 January 2003 as part of the restructuring of the state organization, Czech Railways. ČD assumed assets used to operate railway transportation and to ensure the serviceability of railway routes while SŽDC took over the management of the railway infrastructure in the Czech Republic and represents the State as railway infrastructure owner.

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

SŽDC's main objectives include:

- providing for the operation of the railway infrastructure and ensuring its operability;
- providing for the maintenance and repair of the railway infrastructure;
- providing for the development and modernisation of the railway infrastructure;
- preparing materials for the conclusion of public service contracts with railway transporters; and
- controlling use of railway infrastructure, rail operations and operability.

As of 1 July 2008, ČD formally transferred the role of railway infrastructure management to SŽDC. This involved transferring approximately 10,000 employees and movable and immovable assets for a purchase price of approximately CZK 12 billion. On 1 September 2011, ČD transferred to SŽDC its railway operation services which included approximately 9,300 of ČD employees for a purchase price of CZK 389.9 million. As result, since 1 September 2011, ČD no longer performs any railway operation services.

SOLE SHAREHOLDER AND RELATIONSHIP WITH THE STATE

The State's shareholder role

The Government exercises its rights as a shareholder by means of a Steering Committee, which according to Act No. 77/2002 Coll., as amended, is to comprise of three members from the Ministry of Transportation, and one member of each of the Ministry of Finance, the Ministry of Defence, the Ministry of Industry and Trade, and the Ministry for Regional Development, each of whom acts in accordance with a written Government authorisation. All key strategic decisions by ČD require the approval of the Steering Committee. As of the date of this Prospectus, two of the seven posts in the Steering Committee are vacant and remain to be filled with candidates from the appropriate ministries at their discretion.

The State's support to date

The Government has supported ČD in the past through a one-off subsidy (pursuant to decree no. 686, CZK 3.2 billion was provided from the Government budget to be used to partially cover compensations payable to ČD in relation to passenger transport in 2009), and by guaranteeing loans provided by the European Company for the Financing of Railroad Rolling Stock (''**EUROFIMA**''), a supranational body supporting the development of rail transportation in Europe, for financing the purchase of rail vehicles. In addition, the Government provided a guarantee to support a EUR 92.065 million syndicated amortising loan facility provided to ČD in 1996 with the final maturity in November 2014.

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

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

Other forms of financial support have been provided to ČD pursuant to Government resolution No. 1132/2009 and the Memorandum, which provide for compensation to the Czech Regions in relation to regional passenger transportation until 2019 (please see *''Pricing, Compensations and Tariff regulation''* below for more details).

The Group's Corporate Structure

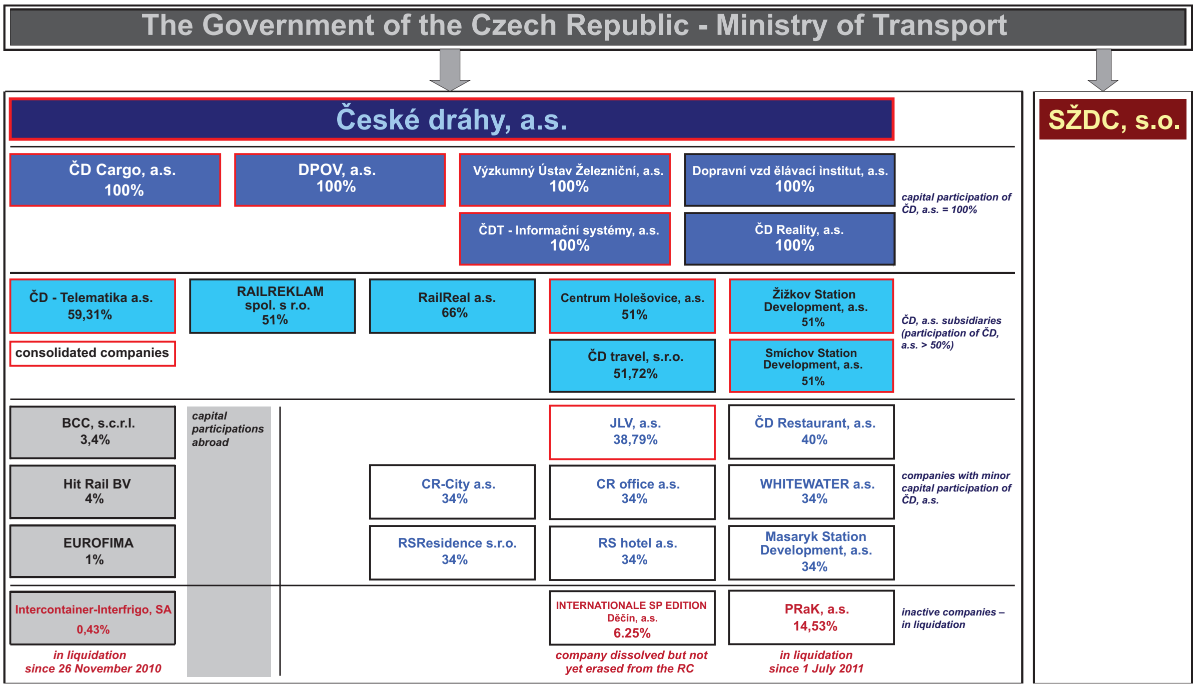
The Group comprises 27 subsidiaries, of which ČD holds majority stakes in 13 of these companies. The companies that are consolidated in the financial statements of ČD as of and for the year ended 31 December 2011 comprise ČD and the following subsidiaries (together the ''**Consolidated Group**''):

- ČD Cargo, ČD – Telematika a.s. (''**ČD Telematika**''), DPOV a.s. (''**DPOV**''), Výzkumný Ústav Železniční, a.s. (''**VÚŽ**''), JLV, a.s. (''**JLV**''), Smíchov Station Development, a.s (''**SSD**''), Žižkov Station Development, a.s. (''**ŽSD**'') and Centrum Holešovice, a.s. (''**CH**''), which are directly consolidated in the financial statements of ČD (together the ''**Directly Consolidated Subsidiaries**'');
- ČD – Informační Systémy, a.s. (formerly ČDT – Informacní Systémy, a.s.) (''**ČDIS**''), which is consolidated in the financial statements of ČD through the consolidated financial statements of ČD Telematika; and
- CD Generalvertretung GmbH, CD – Generalvertretung Wien GmbH, Koleje Czeskie Sp. z o.o., Generálne zastúpenie ČD Cargo, s.r.o., ČD Logistics, a.s., RAILLEX, a.s., BOHEMIAKOMBI, spol. s r.o. and Ostravská dopravní společnost, a.s., which are consolidated in the financial statements of ČD through the consolidated financial statements of ČD Cargo.

In 2011, ČD alone generated 57 per cent. of the Consolidated Group's revenues. The second largest contributor to the Consolidated Group's revenues is ČD Cargo.

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

Overview of the current organisational structure



The following table contains an overview of the Directly Consolidated Subsidiaries as of the date of this Prospectus.

The below figures have been extracted from individual or consolidated (as the case may be) unaudited data provided by the Directly Consolidated Subsidiaries for the purposes of the preparation of the audited consolidated financial statements of ČD as of and for the years ended 31 December 2011 and 31 December 2010.

In order to improve the comparability between reporting periods:

- the figures concerning ČD Cargo as of and for the year ended 31 December 2011 are provided on an individual basis and do not include data concerning CD Generalvertretung GmbH, CD – Generalvertretung Wien GmbH, Koleje Czeskie Sp. z o.o., Generálne zastúpenie ČD Cargo, s.r.o., ČD Logistics, a.s., RAILLEX, a.s., BOHEMIAKOMBI, spol. s r.o. and Ostravská dopravní společnost, a.s., which were consolidated in the financial statements of ČD through the consolidated financial statements of ČD Cargo in the year ended 31 December 2011 but were not consolidated in the financial statements of ČD in the year ended 31 December 2010; and
- the figures concerning ČD Telematika as of and for the year ended 31 December 2011 are provided on a consolidated basis and include data concerning its wholly-owned subsidiary, ČDIS, to the registered capital of which ČD Telematika contributed a part of its business related to the provision of telecommunication services, software and advisory services to ČD in 2011.

As SSD, ZSD and CH were not consolidated in the consolidated audited financial statements of ČD as of and for the year ended 31 December 2010, the below figures concerning these companies are provided only as of and for the year ended 31 December 2011.

The data concerning the Directly Consolidated Subsidiaries (other than JLV, SSD, ŽSD and CH) have been prepared in accordance with IFRS. The data concerning JLV, SSD, ŽSD and CH has been prepared in accordance with Czech GAAP.

Subsidiary	Description
ČD Cargo	ČD shareholding 100 per cent. As of and for the year ended 31 December 2011 revenues amounted to CZK 14,568 million (compared to CZK 14,333 million in 2010), EBIT to CZK 284 million (compared to CZK -579 million in 2010), and total assets to CZK 16,492 million (compared to CZK 17,123 million in 2010). ČD Cargo provides freight transport services with main deliveries comprising of industrial and agricultural products, raw materials, fuels, goods, containers and oversized loads. It also rents freight cars, railway sidings and provides other transportation services.
DPOV	ČD shareholding 100 per cent. As of and for the year ended 31 December 2011 revenues amounted to CZK 1,425 million (compared to CZK 1,195 million in 2010), EBIT to CZK 56 million (compared to CZK 54 million in 2010), and total assets to CZK 934 million (compared to CZK 897 million in 2010). DPOV provides rolling stock repair services. Besides the Group companies, the customers of DPOV include foreign railway companies, predominantly from Germany and Poland.
VÚŽ	ČD shareholding 100 per cent. As of and for the year ended 31 December 2011 revenues amounted to CZK 321 million (compared to CZK 243 million in 2010), EBIT to CZK 112 million (compared to CZK 76 million in 2010), and total assets to CZK 804 million (compared to CZK 608 million in 2010). VÚŽ provides special testing services with the main activities being certification and compliance-assessment of products and quality systems with a special focus on products and sub-systems for the interoperability of the railway system. VÚŽ assesses conformity of defined products, including rolling stock, infrastructure, control command, signalling and energy, with European technical requirements. ČD has determined that VÚŽ represents a non-strategic asset and may therefore be sold in future.
ČD Telematika	ČD shareholding 59.31 per cent.; Nyland Holding B.V., another major shareholder unrelated to ČD, holds 22.08 per cent. As of and for the year ended 31 December 2011 revenues amounted to CZK 1,599 million (compared to CZK 1,496 million in 2010), EBIT to CZK 81 million (compared to CZK 38 million in 2010), and total assets to CZK 3,176 million (compared to CZK 2,831 million in 2010). ČD Telematika provides telecommunication (internet, data, voice and other supplementary services) and IT services (applications for passenger and freight rail transportation and administration of railway infrastructure, SAP and other ERP applications). It also operates the second largest telecommunication infrastructure in the Czech Republic enabling ČD Telematika to offer services in relation to data access points, central data storage and server farms. Besides the Group, which is the most significant customer, ČD Telematika provides its services to other customers including major telecom operators.
JLV	ČD shareholding 38.79 per cent. (consolidated at the discretion of ČD management as it is deemed to be material). As of and for the year ended 31 December 2011 revenues amounted to CZK 225 million (as compared to CZK 237 million in 2010) and total assets to CZK 375 million (as compared to CZK 378 million in 2010), in each case in accordance with Czech GAAP. JLV offers accommodation and catering services in railway passenger transportation. Other services provided by JLV also include operation of restaurants, bars, coffee shops and food stores.
SSD	ČD shareholding 51 per cent. To adopt significant resolutions at general meetings, a majority of 52 per cent. of all votes (equal to a 52 per cent. shareholding) is necessary.

As of and for the year ended 31 December 2011 revenues amounted to CZK 0 million, EBIT to CZK -1 million and total assets to CZK 46 million.
SSD was set up to develop and service the Prague-Smíchov train station.

ŽSD	ČD shareholding 51 per cent. To adopt significant resolutions at general meetings, a majority of 52 per cent. of all votes (equal to a 52 per cent. shareholding) is necessary. As of and for the year ended 31 December 2011 revenues amounted to CZK 0 million, EBIT to CZK -0.1 million and total assets to CZK 7 million. ŽSD was set up to develop and service the Prague-Žižkov freight station.
CH	ČD shareholding 51 per cent. To adopt significant resolutions at general meetings, a majority of 52 per cent. of all votes (equal to a 52 per cent. shareholding) is necessary. As of and for the year ended 31 December 2011 revenues amounted to CZK 6 million, EBIT to CZK 0 million and total assets to CZK 26 million. CH was set up to develop and service the Prague-Holešovice train station.

Recent Changes in the Composition of the Consolidated Group

In the year ended 31 December 2010, ČD treated the investments in the companies CD Generalvertretung GmbH, CD – Generalvertretung Wien GmbH, Koleje Czeskie Sp. z o.o., Generálne zastúpenie ČD Cargo, s.r.o., ČD Logistics, a.s., RAILLEX, a.s., BOHEMIAKOMBI, spol. s r.o., Ostravská dopravní společnost, a.s. and SSD, ŽSD and CH as immaterial. In the consolidated financial statements of ČD for the year ended 31 December 2010, ČD reported investments in these companies as other financial assets available for sale. In the consolidated financial statements of ČD for the year ended 31 December 2011, these companies were included in the Consolidated Group.

On 1 April 2011, ČD Telematika incorporated its new wholly-owned subsidiary, ČDIS. As of the same date, ČD Telematika transferred a part of its business related to the provision of telecommunication services, software and advisory services to ČD as a contribution to the registered capital of ČDIS. In 2012, ČD Telematika transferred all shares in ČDIS to ČD for a purchase price of approximately CZK 122 million.

Restructuring Effort

The Government published its intention to restructure the Group pursuant to the Government Resolution. The key steps implemented within this restructuring process so far include (i) the incorporation of ČD Cargo as a 100 per cent. owned subsidiary of ČD and the contribution of ČD's freight transportation business, including approximately 11,800 employees, to ČD Cargo's registered capital in 2007, (ii) the transfer of a part of ČD's business related to the operation of infrastructure management including, among others, approximately 10,000 employees to the state-owned SŽDC for approximately CZK 12 billion in 2008, and (iii) the transfer of a part of ČD's business related to the operation of the railway operation services including, among others, approximately 9,300 employees to SŽDC for a purchase price of CZK 389.9 million on 1 September 2011. Certain assets necessary for the function of the railway operation remain to be transferred out of ČD in the course of this restructuring process. These assets include railway operation buildings (other than railway station buildings), plots of land directly below the railway routes and certain other assets necessary for the railway operation, which are envisaged to be transferred to SŽDC. Railway station buildings are envisaged to be transferred either to SŽDC or to a newly formed subsidiary of ČD The details of the contemplated transfers, including the compensation for such purposes, are currently being discussed and therefore are not yet fully known or certain (please see ''*Expected Sale of Property*'' below for more details on currently envisaged sale of properties). Additionally, the Government Resolution together with the Government resolution dated 9 January 2008 contemplate transferring certain core businesses, such as passenger transport and real estate management, by ČD to newly formed subsidiaries. The newly formed subsidiary to which the passenger transport business would be transferred may create its own new subsidiaries for the purpose of conducting business in certain market segments, such as providing low-cost passenger transport services. Please see *''Risk Factors Related to the Group's Business—Business Risks—The Group may be adversely affected by changes to its structure''* above for certain risks related to the above restructuring.

THE RAILWAY NETWORK

The railway network in the Czech Republic

SŽDC operates the national and regional railway network (consisting of 9,470 kilometres of railway routes as of 31 December 2011 as compared to 9,568 kilometres of railway routes as of 31 December 2010 in the Czech Republic, according to the Eurostat database) and is responsible for its operation, modernisation and development. As of 31 December 2010, ČD serviced 9,412 kilometres of these railway routes on a contractual basis.

On 1 September 2011, ČD completed the transfer of its railway operation services business, which included the transfer of approximately 9,300 of ČD employees, to SŽDC for a purchase price of CZK 389.9 million. This transfer generated income for ČD of CZK 256 million, which represents the difference between the purchase price paid by SŽDC for the railway operation services business and the book value of such business as of the date of the transfer. The purchase price was ascertained by means of an independent expert opinion. As a result of this transfer, the contract pursuant to which ČD provided the railway operation services to SŽDC was terminated on 1 September 2011. ČD received a reimbursement of CZK 5.194 billion and CZK 3.267 billion from SŽDC for the provision of the railway operation services to SŽDC pursuant to this contract in 2010 and the first eight months of 2011, respectively. As CD's expenses related to the provision of the railway operation services to SŽDC pursuant to this contract almost equalled the revenues generated by ČD from the same, ČD did not make a significant profit from providing these services. Please see "*General Information—Relationship with SŽDC*" above and "*Related Party Transactions*" below for more details.

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

The Group's transport business operates on the majority of the current railway routes in the Czech Republic.

The map below illustrates current and planned railway routes:

Source: Ministry of Transportation of the Czech Republic

KEY STRENGTHS

The Group

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

- well-diversified operations with ČD Cargo's revenues correlating to the industrial activity of the Czech economy;
- the location of the Czech Republic in the centre of Europe facilitates pan-European transport, serving as a link between Eastern and Western Europe;

- ČD has a dominant position for the provision of railway passenger transportation within the Czech Republic and is in possession of decisive know-how and assets for the provision of a complex rail transport service;
- ČD holds long-term contracts for the operation of railway passenger transport (please see *''Material Contracts''* below for more details);
- the Group's network is one of the most dense in Europe enabling it to compete effectively with road transport; and
- labour costs in the Czech Republic are lower than in some neighbouring countries.

Passenger Rail Transport

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

- ČD's passenger operations are governed mainly by long term operating contracts entered into with the Czech Republic and the Czech Regions (please see *''Material Contracts''* below for more details), which facilitate the dominant position of ČD; and
- recent restructuring efforts have resulted in a decreased costs base and a more efficient structure arising from redundancy and on-going cost reduction programmes.

Freight Rail Transport

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

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

	Freight rail transportation in 2011 (without empty rolling stock of carriers)
Tonne km (without empty rolling stock of carriers)	**Share of ČD Cargo (per cent.)**
local	87.3
import	83.6
transit	73.6
export	87.8
sum	84.8

Source: Statistical Yearbook of the Group for the year 2011

- certain fees for access to the rail network by rail freight operators have been decreased and road tolls have been increased with effect from 1 January 2012.

BUSINESS STRATEGY

The Group

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

Passenger Rail Transport

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

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

Freight Rail Transport

ČD Cargo's strategy in the freight rail transport area is to keep its dominant position in the Czech rail freight transport market and to grow in the European context. For 2012, ČD Cargo intends to concentrate on the following fields of activity:

- optimization of internal processes with the goal of increasing productivity and competitiveness of ČD Cargo on the freight rail transport market;
- investment in modern rolling stock and interoperable locomotives;
- promotion of a customer friendly approach and strong sales support;
- differentiation of the portfolio of commodities;
- development of logistic services with higher added value;
- co-operation with road transport and other logistic providers;
- forming an alliance with neighbouring foreign companies to create a large central European player in the rail freight segment; and
- strengthening of the transit transport on the East-West axis.

Investment Plan

ČD is preparing for the on-going opening of the passenger transport market to competition by enhancing the quality of its trains and rolling stock to increase the competitiveness of the ČD offering. The investment plan is aimed at reaching and maintaining compliance with future technical norms that are likely to become more restrictive and at meeting the Central European standards for passenger transport, as set out in the Technical Specification for Interoperability issued by the Community of European Railway and Infrastructure Companies. This is expected to be financed through a mixture of internal and external funds including, among others, the proceeds of the issue of the Notes.

Passenger Rail Transport

According to the current investment plan prepared in accordance with Czech GAAP and approved by the Board of Directors and Supervisory Board, ČD has budgeted to invest approximately CZK 20 billion (approximately EUR 800 million) by 2015, the majority of which has been allocated to the purchase of new rolling stock. The actual amount invested may, however, differ materially from the amount budgeted (please see *"Important Notice"* above for more details).

Regional

In terms of regional passenger transport, a number of new trains for ČD are expected to commence operation in the next three years. The trains are to be partially funded by the regional operating funds' subsidies provided by the EU under the Regional Operating Programmes. As of 31 December 2011, 18 projects had been submitted for approval. 17 of these projects have been approved by 31 March 2012 with the last project successfully having passed through the first stage of the approval process. On the basis of these projects, ČD may acquire up to 90 train units, out of which 19 train units have already been acquired. Subject to the fulfilment of the conditions of the Regional Operating Programmes, the total subsidy available to ČD from the Regional Operating Programmes is expected to be up to CZK 2.9 billion in total during the period from 2011 to 2014.

On 14 July 2010, the EIB approved the financing to ČD of up to CZK 4 billion, which is to be used for financing the purchase of new train-sets to be utilised on selected routes of the regional railway network. According to the information published by EIB, the total cost of this project is expected to be CZK 8.57 billion and is expected to be co-financed in part from the Regional Operation Programmes. Nevertheless, as of the date of this Prospectus, this financing transaction is still being negotiated and it cannot be ruled out that the amount of the financing and the total cost of the project will be materially lower than the above mentioned amounts or that ČD will not utilise such financing.

Long distance

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

ČD is planning to modernise its portfolio of existing vehicles by 2020 in order to decrease the average age of the towed passenger train units from around 29 years to 24 years by 2020 (as measured from the date of production). The modernisation programme started in 2010 when ČD concluded contracts for the modernisation of existing units with five suppliers. Funding has been and will be sourced from various financing instruments, including leases, bank loans and bonds. Funding for such purposes in the amount of EUR 300,000,000 was obtained through a Eurobond issue in June 2011. The modernisation programme is focused on long distance and commercial passenger transport.

Commercial

ČD is planning the introduction of a number of modernised trains to serve on the key domestic and international routes. The trains are expected to allow for an improvement in the quality of ČD services.

ČD has also concluded a contract for twenty Škoda Transportation multisystem electric class 380 locomotives in the amount of CZK 2.7 billion, 15 of which have been delivered and are in pilot testing as of April 2012. The remaining units are to be delivered after the pilot testing has been completed and approvals for travel on foreign railroads have been obtained.

Freight Rail Transport

According to the current investment plan for 2012 approved by the Supervisory Board of ČD Cargo on 27 April 2012 and the current mid-term investment plan included in a business forecast approved by the Board of Directors of ČD Cargo on 23 May 2012, in each case prepared in accordance with IFRS principles, ČD Cargo has budgeted to invest up to CZK 16.4 billion by 2020. The actual amount invested may differ materially from the amount budgeted (please see *''Important Notice''* above for more details).

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

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

Risk Management

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

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

Liquidity risk

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

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

Interest rate risk

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

Foreign currency exchange rate risk

The Group is exposed to foreign currency exchange rate risks. The Group monitors its exposure and aims to mitigate foreign currency exchange rate risks predominantly by natural hedging, i.e. using revenues (in the particular currency) to reimburse costs incurred in such currency. Additionally, the Group has entered into a series of hedging transactions to mitigate this risk.

The currency giving rise to foreign currency exchange rate risk is primarily the euro as a result of ČD Cargo's operations, as well as from euro denominated financial indebtedness incurred by the Group, including the EUROFIMA loan facilities and Eurobonds. The Group is a party to a cross-currency interest rate swap with a nominal value of EUR 240 million, which reduces the risk of a change in future cash flows required under the Eurobonds and the risk of a change in the fair value of the Eurobonds for the accounting purposes of ČD (please see Note 35.5.3 to the audited consolidated financial statements of ČD as of and for the year ended 31 December 2011 for more details). The management of ČD Cargo mitigates the foreign currency exchange rate risk arising from its operations by utilising a wide range of short- and mid-term financial hedging instruments (please see *''Risk Factors Related to the Group's Business – Business Risks – The Group is exposed to foreign currency rate risk''* above for more details).

Credit risk

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

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

Commodity risk

As the use of commodities, specifically fuel and electricity, represents a significant cost to the Group, the Group is exposed to the risk of changes in their prices. The Group manages this risk using a combination of the following instruments: (i) by entering into mid-term derivatives for the purchase of fuel; (ii) in the event the price of fuel and electricity increases by more than 10 per cent., by requesting the Czech Regions and the State to increase the compensation for provision of passenger transportation services pursuant to long-term contracts; and (iii) by annually negotiating a fixed price of electricity from the relevant supplier for the following calendar year. As of the date of this Prospectus, ČD has hedging contracts covering 35.5 per cent. of the total price of diesel, which is expected to be purchased up to January 2013, whilst ČD Cargo has hedging contracts covering 28.5 per cent. of the total price of diesel, which is expected to be purchased up to July 2013. ČD has agreed on a fixed price for which it purchases electricity for 2012. Additionally, as of the date of this Prospectus, ČD has hedging contracts covering 21 per cent. of the total price of electricity for 2013, which it plans to start purchasing in November 2012. ČD Cargo purchases electricity from ČD (please see *"Risk Factors Related to the Group's Business—Business Risks—The Group is exposed to commodity risks"* above and "*Material Contracts*" below for more details).

ROLLING STOCK

Passenger Rail Transport

As a result of its investment plan, ČD aims to bring down the average age of its fleet (as measured since the date of production) to 24 years by 2020.

Traction vehicles

As of 31 December 2011, ČD owned 2,201 traction vehicles with the average age of the traction vehicles being 28 years since the date of production and 18.5 years since the date of last modernisation.

The table below shows the aging structure of traction vehicles as of 31 December 2011:

	Number of Traction vehicles for passenger transport				
	Inventory count by aging structure				
Traction vehicles	**Total**	**0-10 years**	**11-20 years**	**21-30 years**	**older**
Trailers of electric and diesel sets	301	121	8	6	166
Electric locomotives	362	20	0	192	150
Electric train sets	252	106	8	4	134
Diesel locomotives	278	27	78	28	145
Diesel railcars and sets[(1)]	705	377	79	37	212
Control cars	303	296	7	0	0
Total traction vehicles	**2,201**	**947**	**180**	**267**	**807**

[(1)] unit is reported as a single piece.

Towed passenger train units

As of 31 December 2011, ČD owned 3,035 train units with the average age being 32.2 years since the date of production and 28.5 years since the date of last modernisation.

The table below shows the aging structure of towed passenger train units as of 31 December 2011:

	Number of passenger train units				
	Inventory count by aging structure				
Passenger train units	**Total**	**0-10 years**	**11-20 years**	**21-30 years**	**Older**
Sleeping and restaurant units	114	49	31	20	14
International transport units	694	72	111	362	149
Four-axle units for domestic transportation	1,340	47	49	513	731
Trailer and individual control railcars	756	158	45	100	453
Other passenger units[(1)]	131	6	0	5	120
Total passenger units	**3,035**	**332**	**236**	**1,000**	**1,467**

[(1)] other passenger units include military, baggage, parlour and other.

Freight Rail Transport

Traction vehicles

ČD Cargo's fleet consisted of 974 traction vehicles in 2011. The average age of ČD Cargo's fleet is 34 years (40 years for electric locomotives and 28 years for diesel locomotives) since the date of production.

The table below shows the aging structure of traction vehicles as of 31 December 2011:

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

Towed freight train units

As of 31 December 2011, ČD Cargo possessed 27,416 thousand freight train units. The average age of ČD Cargo's freight train units is 23 years since the date of production.

The table below shows the aging structure of towed freight train units as of 31 December 2011:

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

PROPERTY

Overview of ČD's Property

As of 31 December 2011, ČD owned 7,212 buildings, of which 1,171 were railway station buildings, 978 were rolling stock depot buildings, 3,562 were apartments and the remaining buildings included, among others, blocks of flats, stores, buildings for employees, garages and hostels. The crucial element affecting passengers' comfort is the quality of railway stations and therefore, maintenance of those represents a material cost component.

Expected Sale of Property

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

Expected Sale of Property Related to the Railway Operation

In its resolutions No. 1352/2007 and No. 795/2008, the Government approved the sale of those ČD assets that are used in relation to railway operations to SŽDC.

A contract for the sale of a part of the business between ČD and SŽDC was entered into as of 1 July 2008. As of the date of this Prospectus 18 business units and a part of ČD's management function have been transferred to SŽDC pursuant to this contract for a purchase price of approximately CZK 12 billion. On 31 August 2011, ČD entered into another contract with SŽDC for the sale of a part of its business, pursuant to which ČD transferred to SŽDC its railway operation services, which included the transfer of approximately 9,300 of ČD employees, for a purchase price of CZK 389.9 million.

Certain assets necessary for the function of the railway operation remain to be transferred out of ČD These assets include railway operation buildings (other than railway station buildings), plots of land directly below the railway routes and certain other assets necessary for the railway operation, which are envisaged to be transferred to SŽDC. Railway station buildings are envisaged to be transferred either to SŽDC or to a newly formed subsidiary of ČD The details of the contemplated transfers, including the compensation for such purposes, are currently being discussed and therefore are not yet fully known or certain.

As of 31 December 2011, the net book value (as prepared in accordance with Czech GAAP) of the railway operation buildings (other than railway station buildings), plots of land directly below the railway routes and certain other assets necessary for the railway operation to be so transferred was approximately CZK 3.6 billion. However, the actual purchase price or the value of other compensation for these assets may, however, differ materially from their net book value.

Expected Sale of Property to Private Investors

ČD is planning to sell some of its other non-core assets to private investors. The Supervisory Board approved a decree on 28 April 2011 for the preparation of a public tender for an advisor to assist with a sale of remaining non-core buildings (administration buildings, workshops, garages, warehouses) and non-core land predominantly surrounding the railway stations. As of January 2012, the estimated market value of the buildings was CZK 2.1 billion and the land was CZK 5 billion, and the transactions are planned to be conducted on an arm's length basis. However, the actual market price is dependent on the market conditions prevailing at the time of sale.

Given the varying quality and attractiveness of the assets, the sale will be clustered in a number of packages each comprising of a combination of attractive and less attractive assets. The sale is expected to occur in several stages, in 2013 and 2014.

EMPLOYEES

The Group is one of the largest employers in the Czech Republic with the average headcount of the Group pro-rated to full-time employees equalling 33,566 in 2011. The Group has, up to the date of this Prospectus, benefited from streamlining its operations without triggering any major industrial actions. In April 2012, labour unions active within the Group indicated that they are considering conducting a strike later in 2012. Nevertheless, the labour unions declared that this strike is intended as a protest against the Government policies and not directly against ČD

Furthermore, the Group incurs lower costs associated with labour than many of its European peers.

The table below shows the annual average number of employees for the years 2008 to 2011:

Annual average number of employees (pro-rated to full-time employees)	2008	2009	2010	2011
The Group	48,592	41,081	38,046	33,566
ČD	34,685	28,569	26,992	22,640
ČD Cargo	11,721	10,378	9,573	9,207

Passenger Rail Transport

Pursuant to the Collective Agreement for 2012, ČD employees whose employment relationships have been terminated due to (i) the employee's redundancy as a result of ČD's decision to change the goals of ČD or to reduce the number of employees in order to increase work efficiency; (ii) closure or relocation of a part of ČD; or (iii) being certified as incapable of performing his/her work for a prolonged period as a consequence of a medical condition, are entitled under certain circumstances to severance pay amounting to up to 7 months' average salary (with certain limitations in the calculation of the average salary) in addition to the severance pay set out in the Labour Code (262/2006 Coll.), as amended (the "**Labour Code**").

During 2011, the average headcount pro-rated to full-time employees equalled 22,640, representing a decrease of 4,352 employees when compared to 2010. As of 31 December 2011, ČD had 16,240 employees, representing a decrease of 9,760 when compared to the same period in 2010, predominantly as a result of the transfer of the railway operating services business to SŽDC.

Other personnel costs (i.e. costs other than wages and wage related expenses), in accordance with IFRS, for the period from 1 January to 31 December 2011 amounted to CZK 280 million and included severance payments to employees, benefits resulting from the collective agreement in force and other employee benefits. As of 31 December 2011, severance payments made pursuant to the collective agreement for 2011, which goes beyond the requirements stipulated by the Labour Code in the Group totalled CZK 120 million and were primarily made to 341 employees of ČD and 190 employees of ČD Cargo.

The average monthly salary of ČD employees was CZK 27,060 in 2011 and CZK 27,319 in 2010. When taking into account the average consumer price index of 1.9 per cent. in 2011, the average salary in the Group decreased by 0.95 per cent. in nominal terms and decreased by 2.8 per cent. in real terms in 2011 when compared to 2010.

On 1 September 2011, ČD transferred approximately 9,300 employees to SŽDC as part of the transfer of its railway operation services business to SŽDC.

Freight Rail Transport

The average registered headcount recalculated to full-time employees of ČD Cargo equalled 9,207 in 2011 and 9,573 during 2010. The reduction of staff is a result of streamlining initiatives aimed at enhancing ČD Cargo's competitiveness.

According to IFRS, employee benefit costs for the period from 1 January to 31 December 2011 were approximately CZK 4.38 billion. This compares to total employee benefit costs of CZK 4.67 billion for the same period in 2010.

The average monthly salary of ČD Cargo's employees was CZK 28,688 in 2011 and CZK 29,755 in 2010.

Pension Plans

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

According to the Collective Agreement for 2012, ČD is to provide its employees with several other employee benefits (e.g. meal allowances, life and pension insurance) in the expected amount of approximately CZK 0.49 billion.

ENVIRONMENT, PROTECTION, HEALTH AND SAFETY

Passenger Rail Transport

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

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

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

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

Freight Rail Transport

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

ČD Cargo holds a certificate of environment management system indicating compliance with the code of conduct relating to environmental policy within the Czech Republic. The certificate is valid until 10 January 2014.

LICENCES AND INSURANCE

Licences

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

Passenger Rail Transport

As of the date of this Prospectus, ČD holds all required licences for the provision of passenger transport in the Czech Republic, including a licence and a certification of the transport company (pursuant to the Railway Act) that is awarded depending on compliance of the operation and safety management systems with the Ministry of Transportation regulation no. 376/2006 Coll. The licence has been awarded for an indefinite period of time and the certification is valid for five years. The current certification is to expire in 2013, when ČD intends to apply for its renewal for a further five years.

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

Freight Rail Transport

As of the date of this Prospectus, ČD Cargo holds all required licences for the provision of freight transport in the Czech Republic, including a licence and a certification of the transport company (pursuant to the Railway Act) that is awarded depending on compliance of the operation and safety management systems with the Ministry of Transportation regulation no. 376/2006 Coll. The licence has been awarded for an indefinite period of time and the certification is valid for five years. The current certification is to expire in 2013, when ČD Cargo intends to apply for its renewal for a further five years.

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

Insurance

Passenger Rail Transport

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

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

ČD carries the following insurance cover:

- third party liability insurance for long-distance and regional transport (natural disaster insurance included) for claims up to CZK 300 million for an individual incident, and an aggregate total of CZK 600 million in one year (this insurance carries an excess of CZK 3 million per event);
- third party liability insurance for its fleet of cars for claims up to CZK 70 million for each incident (there is no excess);

- car insurance coverage (CASCO insurance) for its fleet of cars with an age of up to three years (the total amount that may be claimed varies depending on the value of the car (there is an excess of 2 per cent. of the value of the claim, with a minimum excess of CZK 2,000); and
- liability insurance for members of its statutory bodies, members of its Supervisory Board and certain other persons up to a total amount of CZK 1 billion.

Freight Rail Transport

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

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

CREDIT RATINGS

The Group has been assigned a long-term debt rating of Baa1 (negative) by Moody's and the Notes are expected to be rated by Moody's. Moody's is established in the European Community and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the ESMA's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

BUSINESS OVERVIEW

Passenger Rail Transport

The provision of ČD's passenger rail transport covers regional, long-distance and commercial services with each of the activities varying in revenues and profitability. Compensation from the State budget totalled CZK 4,081 million in 2011 and CZK 4,075 million in 2010 and compensation from budgets of the 14 Czech Regions amounted to CZK 8,177 million in 2011 and CZK 8,036 million in 2010.

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

	Passenger	Management of operations	Admin of assets	Freight transportation	Other	Elimination and reconciliation	Total
				(CZK millions)			
Revenue from principal operations							
Revenue from passenger transportation	6,844	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**

Source: Consolidated Financial Statements of ČD for the Year 2011

Regional

Overview

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

Market

ČD develops its business through providing various discounts to its customers. ČD also aims to attract more passengers to suburban train services at the expense of individual car transport (especially in the city of Prague and the Stredoceský region) by modernising its rolling stock and increasing the quality of its services at stations and on-board. Regional rail transport, as supplemented by regional buses, is envisaged by the Government to be the backbone of regional transport.

Current Czech laws allow for liberalisation of the railway market. However, in practical terms, as of the date of this Prospectus, ČD has a dominant position in the passenger railway transport market, except for small regional rail haulers and one nationwide operator:

- GW Train Regio (formerly Viamont a.s.) operates five routes in the Karlovarský and Královehradecký regions, including the Karlovy Vary – Mariánské Lázně route and the Sokolov – Kraslice route. In the Moravskoslezský region it operates the Vrbno – Milovice route and in the Liberecký region it operates the Kořenov – Harrachov national border line;
- Veolia Transport operates the Šumperk – Kouty nad Desnou route;

- Vogtlandbahn-GmbH operates the Liberec – Zittau route; and
- Jindřichohradecká místní dráha operates two routes – Jindřichův Hradec – Nová Bystřice and Jindřichův Hradec – Obrataň.

Long-Distance (domestic and international)

Overview

Long-distance passenger rail transport represents approximately 30 per cent. of total passenger services provided by ČD in terms of train kilometres and is provided pursuant to the agreement entered into with the Czech Republic acting through the Ministry of Transportation. As in the case of regional transport, passengers are incentivised to use ČD by various discounts offered by ČD Pursuant to the agreement, ČD secures both domestic and international routes on the basis of the public service obligation until 2019. Revenues are generated from tickets sales and from compensation received from the Ministry of Transportation. However, the long distance routes are less subsidised due to the lower density of the network and the higher occupancy rates.

Market

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

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

Commercial

Overview

Commercial passenger transport encompasses the non-regulated passenger operations that include Pendolino operations on the route from Prague to Ostrava and the majority of EuroCity and InterCity trains. Such transport represents approximately 3 per cent. of total passenger services provided by ČD in terms of train kilometres.

Market

Entering the commercial passenger transport market requires permission from the Ministry of Transportation based on a public procurement procedure and traffic route capacity has to be allotted by SŽDC. In September 2011, privately held RegioJet a.s. started operating its own regular passenger service on the main train route in the Czech Republic between Prague and Ostrava, which had until then been operated solely by ČD. Privately held company LEO Express a.s. published its intention to commence operating its own regular passenger service on this route from December 2012. According to statements made by each of RegioJet a.s. and LEO Express a.s., these companies also aim to commence the operation of regular passenger services on other routes currently exclusively operated by ČD. In April 2012, RegioJet a.s. publicly announced that German Deutsche Bahn has decided not to cooperate with ČD on the international route between Prague and Hamburg and instead to negotiate exclusively with Regiojet a.s. regarding such cooperation (please see *''Risk Factors—Business risks—The Group is exposed to competition from other transport companies and may be adversely affected by technological advantages developed by such competitors''* below for more details).

Freight Rail Transport

Overview

ČD Cargo transports a wide range of products, from raw materials to products with high added value (such as automotive and machinery products), as well as containers and non-standard consignments. The highest percentage of freight typically consists of solid fuels (30 per cent.), metals and mining (20 per cent.), large containers (11 per cent.) and building materials (8 per cent.). Other services provided by ČD Cargo include, among others, the leasing of railway wagons, shuttle transport, storage and the delivery of goods. As of the date of this Prospectus, ČD Cargo is not a beneficiary of any compensation from the State as its services are provided solely on a commercial basis.

Market

The freight market can be divided into local, transit, export and import. Combined freight volumes of transit, export and import represented together approximately 61 per cent. of ČD Cargo's freight volumes in 2011 and 63 per cent. in 2010. The remaining segment of the freight market is the local market (approximately 39 per cent. of total volumes in 2011) where ČD Cargo dominates the market with an 85 per cent. share of the total transported volume in 2011 and operates the largest railcar fleet. The most active competitors to ČD Cargo are AWT and Unipetrol Doprava. From a European perspective, the most significant competitors of ČD Cargo entail Deutsche Bahn Schenker Rail, Rail Cargo Austria and Polskie Koleje Państwowe (PKP) Cargo.

Other Activities

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

PRICING, COMPENSATION AND TARIFF REGULATION

Passenger Rail Transport – Regional

Overview

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

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

In its resolution No. 590 dated 20 July 2011, the Government resolved to reduce the funds payable to the Czech Regions under the Memorandum from CZK 2.649 billion to CZK 2.049 billion in each of the years from 2012 to 2014, thereby disregarding the terms of the Memorandum. While the Government has never formally repealed this resolution, the State in 2012 up to the date of this Prospectus has nevertheless been providing the Czech Regions, with the amount of funds, as specified in the Memorandum. Nevertheless, the Group cannot provide any assurance that the Government will follow the terms of the Memorandum in the future. Any failure by the Government to follow the terms of the Memorandum could lead to a decrease in the compensation payable to ČD for verifiable losses incurred by ČD when providing regional passenger rail services. Additionally, as the form and subject matter of the Memorandum are currently being renegotiated, it is not certain that the terms of funding set out in the Memorandum, including the amount of compensation payable by the State to the regions, may not be altered. Most of the long-term contracts entered into between ČD and the Czech Regions or the State concerning the provision of rail passenger services by ČD are to expire in 2019. The Group cannot provide any assurance that such contracts will be renewed, or that any such renewal will be on substantially the same terms or for the same scope of services as currently provided. (please see ''*Risk Factors Related to the Group's Business—Business risks—ČD relies on compensation payable to it by the State and the regions, including the city of Prague, in respect of public passenger rail services*'' above for more details).

Liberalisation of the regulated regional passenger transport in the Czech Republic

Pursuant to the long-term contracts between ČD and the Czech Regions, six of the Czech Regions may undertake more tenders on a competitive basis in the next eight years which represented approximately 38 per cent. of train-kilometres in 2010. Two regions (*Jihomoravský kraj* and *Plzeň*ský kraj) have already published in the Official Journal of the EU their intention to organise tenders with relation to certain specific regional routes. It is possible that these tenders, in which ČD intends to participate, will be conducted as soon as in 2012. It is anticipated that the market opening might attract a smaller number of new entrants as compared to long distance passenger transport due to its greater reliance on regional compensation and the regional areas are less profitable routes. Such entrants may also include Czech low-cost passenger rail operators, such as privately held RegioJet a.s. and LEO Express a.s., as well as significant passenger rail operators from neighbouring countries, such as German Deutsche Bahn and Austrian ÖBB (please see ''*Business Overview –Passenger Rail Transport – Regional – Market*'' and ''*Risk Factors Related to the Group's Business—Industry risks—The gradual opening of the Czech passenger rail market to competition*'' above for more details and certain related risks).

Passenger Rail Transport – Long Distance (domestic and international)

Overview

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

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

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

Long-haul rail transport is regulated by the State through the Ministry of Transportation. Gradual liberalisation has been discussed since 2004. A long-term contract was signed with the Czech Republic acting through the Ministry of Transportation in 2009 which outlines the possibility of the gradual opening of this market segment to competition by organising tenders for logically and operationally linked parts of the transport timetable. Over the ten-year period of the contract, each year up to 15 per cent. of the long-haul segment (measured according to the 2010 schedule), may be gradually tendered so that by 2019 up to 75 per cent. of the total transport timetable may have been allocated in tenders. The volume of transport services ordered by the Czech Republic acting through the Ministry of Transportation for the 2010 schedule was 38 million train-kilometres. Based on the public announcement of the Ministry of Transportation, the Ministry of Transportation has, in 2010, filed an application for publication in the Official Journal of the EU of a tender in respect of railway routes representing up to 3 per cent. of the railway routes operated by ČD as of the date of this Prospectus. No tenders have been conducted so far. In April 2012, a tender for the Ostrava – Krnov – Olomouc route was announced and ČD is participating in the tender. The results of this tender are expected to be known in the second half of 2012. Further tenders for long distance passenger transport will be announced in 2012. ČD's competitors in these public tenders may include Czech low-cost passenger rail operators, as well as significant passenger rail operators from neighbouring countries (please see ''*Business Overview—Passenger Rail Transport—Regional—Market*'' and ''*Risk Factors Related to the Group's Business—Industry risks—The gradual opening of the Czech passenger rail market to competition*'' above for more details and certain related risks).

Passenger Rail Transport – Commercial

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

Freight Rail Transport

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

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

Identifier	**Name of tariff**
CSSKWT	Czech/Slovakian-Slovenian/Croatian Tariff for Transport of Complete Wagon Loads
CSSEBB	Czech/Slovakian-Swiss Tariff for Complete Wagon Loads
CSUSKWT	Czech/Slovakian/Hungarian-Slovenian/Croatian Tariff for Transport of Complete Wagon Loads
DSKWT	German/Netherlands-Slovakian Tariff for Transport of Complete Wagon Loads
DNUWT	German/Netherlands-Hungarian Tariff
MTT	International Railway Transit Tariff
OCWT	Austrian/Czech Railway Cargo Tariff
POGT	Polish-Austrian Tariff
PSCURT	Polish-Slovakian-Czech-Hungarian-Romanian Tariff for Transport of Complete Wagon Loads
SCNT	Slovakian-Czech Railway Cargo Tariff for Transport of Complete Wagon Loads
SOGT	Swedish-Austrian Tariff
STSG	Swedish-Czech/Slovakian Railway Cargo Tariff
SUGT	Swedish-Hungarian Tariff

Domestic and international freights

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

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

Class of freight

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

INTERNATIONAL COOPERATION

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

Community of European Railway and Infrastructure Companies

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

International Union of Railways

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

The Organisation for Railways Cooperation

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

CORPORATE GOVERNANCE

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

The Steering Committee

The Government exercises its rights as a shareholder of ČD by means of a Steering Committee. According to Czech Act No. 77/2002 Coll., as amended, the Steering Committee is required to comprise of three representatives of the Ministry of Transportation and one employee from each of the following ministries: the Ministry of Finance, the Ministry of Defence, the Ministry of Industry and Trade, and the Ministry for Regional Development, each with written Government authorisation. Members of the Steering Committee are appointed for an indefinite period until the Government revokes their position.

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

Name	Position	Position Within the Relevant Ministries
Ing. Lukáš Hampl	Chairman	First Deputy Minister of Transport
Jiří Žák	Vice-Chairman	Deputy Minister of Transport
Ing. Michael Hrbata	Member	Deputy Minister of Defence
Ing. Michal Janeba	Member	Deputy Minister of Regional Development
Ing. Miloslav Müller	Member	Chief of Staff of the Minister of Finance
Ing. Miloslav Hala	Member	Authorised Deputy Minister of Transport
Mgr. Petr Pelech	Member	Secretary of the Minister of Industry and Trade

The Board of Directors and Executive Officers

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

Composition and roles

Name	**Position within the Board of Directors / Executive Officer Position and respective appointment dates**	**Background**
Ing. Petr Žaluda	Chairman of the Board of Directors as of 1 February 2008 / Chief Executive Officer ("**CEO**") as of 1 February 2008.	Mr Žaluda graduated from the Technical University in Brno and completed study programmes at Utrecht University and Sheffield Business School. He worked as Country Manager for Stork Demtec between 1991 and 1993. Between 1993 and 1996, Mr Žaluda worked as Branch Office Manager in Ernst & Young. In 1998, he became the CEO and Chairman of the Board of Directors of Winterthur, penzijní fond, and between 2002 and 2006, he managed the Winterthur Group in the Czech Republic and Slovakia. Prior to joining ČD, Mr. Žaluda was the Country CEO of AXA for the Czech Republic and Slovakia.
Ing. Michal Nebeský	Member of the Board of Directors as of 12 September 2008 / Deputy of CEO – Finance as of 1 September 2008.	Mr. Nebeský graduated from the University of Economics in Prague, Faculty of International Trade and Finance. From 1991 until joining ČD, Mr. Nebeský worked at Citibank where he was appointed risk manager for the Czech Republic in 2003 and risk manager for Central Europe in 2005.
Ing. Vladimír Bail, Ph.D.	Member of the Board of Directors as of 9 November 2011	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.
Ctirad Nečas	Member of the Board of Directors as of 9 November 2011	Ctirad Nečas graduated from the Faculty of Arts of Masaryk University in Brno. Until 2002 he worked for FIRM Blansko in the position of a shareholder representative. From 2002 he was the Finance Director of Lavimont, spol. s r.o. At present he is the CEO of Královopolská Ria, a.s.

ČD Cargo is personally connected to ČD Ing. Petr Žaluda, who is the Chairman of the Board of Directors of ČD and ČD's CEO is also a member of the Supervisory Board of ČD Cargo.

On 29 June 2010, the Board of Directors established, as its permanent advisory body, the Risk Management Committee. As of the date of this Prospectus, the Risk Management Committee is composed of five members, as follows:

Risk Management Committee

Ing. Petr Vohralík	Chairman
Ing. Antonín Blažek	Member
JUDr. Jaroslav Král, CSc.	Member
Ing. Michal Nebeský	Member
Ing. Milan Čermák	Member

The Supervisory Board

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

Composition and roles

Name and position	Position within the Supervisory Board and appointment date	Organisation and business address
Ing. Ivo Toman, MBA, Deputy Minister of Transport of the Czech Republic	Chairman of the Supervisory Board as of 14 June 2012	Ministry of Transportation of the Czech Republic, nábř. L. Svobody 1222/12, 110 15 Prague 1
Ing. Lukáš Hampl, Deputy Minister of Transport of the Czech Republic	Member as of 14 June 2012	Ministry of Transportation of the Czech Republic, nábř. L. Svobody 1222/12, 110 15 Prague 1
Ing. Michael Hrbata, Deputy Minister of Defence	Member as of 16 September 2010	Ministry of Defence of the Czech Republic, Tychonova 1, 160 00 Prague 6
Ing. Miroslav Nádvorník, Chairman of the Board of Directors and CEO of MD Logistika, a.s.	Member as of 16 September 2010	MD logistika, a.s., Křičenského 451, 533 03 Dašice v Čechách
Mgr. Martin Riegl, Ph.D. Chief of Administration, Ministry of Transportation of the Czech Republic	Member as of 19 August 2011	Ministry of Transportation of the Czech Republic, nábř. L. Svobody 1222/12, 110 15 Prague 1
Bc. Jaroslav Pejša, Chairman of the Confederation of Railroad Unions	Member as of 5 May 2011	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Vladislav Vokoun, First Vice-Chairman of the Confederation of Railroad Unions	Member as of 1 January 2009	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9
Antonín Leitgeb, Secretary of the ČD Committee of the Confederation of Railroad Unions	Member as of 1 January 2009	Confederation of Railroad Unions, Dům Bohemika, Na Břehu 579/3, 190 00 Prague 9

On 8 September 2011, the Supervisory Board established, as its sub-committee, the Remuneration Committee of ČD As of the date of this Prospectus, the Remuneration Committee is composed of three members as follows:

Remuneration Committee

Ing. Ivo Toman, MBA	Chairman
Ing. Miroslav Nádvorník	Member
Mgr. Martin Riegl, Ph.D.	Member

The Audit Committee

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

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

Members of the Audit Committee

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

Conflicts of Interest

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

Recent Changes in Corporate Governance and Management Structure

On 21 April 2011, JUDr. Radek Šmerda, Ph.D., resigned from the position of Chairman of the Steering Committee. By its Resolution No. 318 of 27 April 2011, the Government appointed Ing. Ivo Vykydal as Chairman of the Steering Committee. The appointment of two of the Steering Committee members, JUDr. Petr Polák and Mgr. Jakub Hodinář, terminated as of 31 January 2012 and 31 December 2011, respectively, as a result of the termination of their employment with the relevant ministries. The appointment of Ing. Ivo Vykydal as a member of the Steering Committee terminated on 6 June 2012, as a result of the termination of his position as the Deputy Minister of Transportation. By its Resolution No. 401 of 6 June 2012, the Government appointed Mr. Jiří Žák, Ing. Miloslav Hala and Mgr. Petr Pelech as members of the Steering Committee, Ing. Lukáš Hampl as Chairman of the Steering Committee and Mr. Jiří Žák as Vice-Chairman of the Steering Committee.

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

On 26 April 2012, Ing. Jiří Kolář, Ph.D. resigned from the position of a member of the Board of Directors to avoid any potential conflicts of interest, which could result from his appointment as the Chief Executive Officer of SŽDC as of 19 April 2012.

At its meeting on 28 April 2011, the Supervisory Board discussed the resignation of JUDr. Radek Šmerda, Ph.D., and discontinued his membership of the Supervisory Board through Resolution No. 1415 dated 28 April 2011. The term of office of PhDr. Jan Bitter expired on 4 May 2011 in accordance with the Articles of Association of ČD Bc. Jaroslav Pejša was appointed a member of the Supervisory Board in the election held on 26 April to 29 April 2011. His appointment became effective 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 Ing. Ivo Toman, MBA and Mgr. Martin Riegl, Ph.D. as members of the Supervisory Board with immediate effect. At its meeting held on 7 October 2011, the Steering Committee recalled Ing. Jaroslav Palas from the position of a member of the Supervisory Board and appointed Ing. Daniel Bartek a member of the Supervisory Board with effect from 8 October 2011. With effect from 6 June 2012, Ing. Daniel Bartek resigned from his position as a member of the Supervisory Board. As at the date of this Prospectus, no new member of the Supervisory

Board has been appointed to replace Ing. Daniel Bartek. On 11 July 2012, Ing. Lukáš Hampl submitted a resignation from the position of a member of the Supervisory Board. His resignation and the appointment of two new Supervisory Board members are scheduled to be discussed by the Steering Committee on 19 July 2012.

MATERIAL CONTRACTS

Passenger Rail Transport

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

- Regional passenger services – ČD is a party to long term contracts with each of the 14 Czech Regions, such contracts having been entered into for the respective periods not ending before 2019. The contracts stipulate the provision of regional passenger transport in the public interest by ČD The volumes of transport for the coming years are to be stipulated in amendments to these contracts.
- Long distance passenger services – ČD concluded a 10-year contract with the Ministry of Transportation in 2009 to secure the traffic needs of the Czech Republic in the public interest. In 2011, ČD provided, and in 2012 ČD is to provide, pursuant to this contract, approximately 36.5 and approximately 34.2 million train-kilometres, respectively. The volumes of transport for the following years are to be stipulated in amendments to this contract.
- Capacity allocation agreement – this agreement was entered into between ČD and SŽDC on 30 June 2009 for an indefinite period. The agreement governs payments to SŽDC in respect to capacity allotment, usage of railway infrastructure and other services (such as publishing rail schedules, etc.) and stipulates the maximum price set by a decree by the Ministry of Finance.
- Purchase of electricity – ČD is a party to a contract with ČEZ Prodej s.r.o. which provides for supplies of traction electricity from 1 January 2012 till 31 December 2012.
- Sourcing of diesel – ČD is a party to a contract with UNIPETROL RPA, s.r.o., entered into on 13 July 2011, for the supply of diesel fuel. This contract was awarded following a public tender which ČD carried out in accordance with the Public Procurement Act. At the same time, ČD is a party as the lessor to an agreement, entered into on the same day, for rent of diesel fuel storage facilities to UNIPETROL RPA, s.r.o. Both contracts expire on 30 June 2014.
- Supply of rolling stock – ČD is a party to a number of contracts concerning the supply of train units and train coaches to ČD, which were awarded by ČD in multiple tenders. The most material of these contracts have been entered into with Škoda Transportation, ŠKODA VAGONKA a.s., Pars nova a.s., Stadler Pankow GmbH, ŽOS Trnava a.s., Krnovské opravny a strojírny s.r.o., CZ LOKO a.s. and JANOZA CZ, s.r.o. as suppliers.
- Heavy maintenance and rolling stock repair services – ČD is a party to a contract with DPOV, a wholly-owned subsidiary of ČD, dated 21 February 2007, as amended, pursuant to which DPOV provides ČD with rolling stock repair services. In addition, ČD is also a party to contracts with MOVO spol. s r. o. and Pars nova a.s., pursuant to which MOVO spol. s r. o. provides ČD with heavy maintenance and rolling stock repair services and Pars nova a.s. provides ČD with rolling stock repair services.

Freight Rail Transport

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

- Capacity allocation agreement – this agreement was entered into between ČD Cargo and SŽDC on 31 December 2009 for an indefinite period. The agreement stipulates a maximum price set by a decree of the Ministry of Finance and terms under which SŽDC can renegotiate the price once a year (in case inflation is greater than 10 per cent.).
- Material supplies agreement – this agreement between ČD Cargo and ČD was entered into on 24 March 2010 for an indefinite period. The agreement stipulates the conditions of diesel, engine oil and replacement parts supplies.

- Electricity supply agreement – on 28 May 2012, ČD Cargo and ČD entered into a contract for the provision of traction electricity by ČD to ČD Cargo in 2012.

ONGOING MATERIAL DISPUTES

In the ordinary course of its business activities, the Group encounters disputes and actions regarding, among other things, damages, contractual relationships and real estate ownership. Currently, the Group is involved in 28 material actions as defendant and in 21 material actions as claimant where the relevant action is considered material on the basis that the amount in dispute exceeds CZK 0.5 million. As of the date of this Prospectus, the aggregate amount of all claims, for which the amount so claimed against the Group has been specified and of which ČD management is aware, is approximately CZK 767.1 million.

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

- In May 2009, the Chairman of the Office for the Protection of Competition reduced a fine imposed on ČD for the abuse of a dominant position from CZK 270 million to CZK 254 million. According to the Office, ČD abused its dominant position in the market for rail freight of large volumes of natural resources and raw materials pursuant to both the Act (143/2001 Coll.) on the Protection of Competition, as amended, and the Treaty on Functioning of the EU. ČD has appealed against the decision of the Chairman to the Regional Court in Brno which upheld the fine in May 2011. ČD appealed against the decision of the Regional Court in Brno to the Supreme Administrative Court. In August 2009, the Regional Court in Brno stated that the payment of the fine imposed by the Chairman would not be suspended pending the appeal process. However, the Office confirmed that the fine has in fact been suspended pending the appeal process and on this basis ČD has not yet paid the fine. Even if the fine was confirmed by the Supreme Administrative Court, no interest on such late payment will accrue. As of the date of this Prospectus, the appeal process before the Supreme Administrative Court is still pending.
- According to the electricity supply agreement that was supposed to be entered into between ČD Cargo and SŽDC in 2009 (but has never actually been entered into), ČD Cargo was supposed to pay a set price to SŽDC per kWh of delivered electricity in 2009. ČD Cargo considered that, when setting the price, SŽDC failed to comply with the Public Procurement Act. Therefore, ČD Cargo did not pay SŽDC the full price as set out in the draft agreement (despite the electricity being supplied by SŽDC to ČD Cargo), and as a result on 26 January 2011. SŽDC filed a court claim for unjust enrichment in the amount corresponding to the part of the set price not paid by ČD Cargo in the amount of approximately CZK 240 million.
- In 2010, the Czech passenger railway transporter RegioJet, a.s. submitted two complaints to the EU Commission against the Czech Republic. One of these complaints concerned the fact that some of the Czech Regions awarded public rail service contracts for the provision of rail services in excess of CZK 150 billion for another 10 to 15 years to ČD without following a proper tender process. According to RegioJet, a.s., this violates principles of non-discrimination and transparency and a part of the compensation provided pursuant to these public service contracts constitutes unlawful State aid. The other complaint alleged that the transfer of a part of ČD's business related to the operation of infrastructure management including, *inter alia*, approximately 10,000 employees from ČD to SŽDC for the purchase price of approximately CZK 12 billion in 2008 (please see "*Description of the Issuer—Sole Shareholder and Relationship with the State—Restructuring Effort*" above) represented unlawful State aid, as ČD acquired this part of its business from the State allegedly for no consideration as part of the restructuring of the state organisation, Czech Railways, in 2003. The Czech Republic believes that this complaint was unfounded, mainly because the relevant part of ČD's business was transferred to SŽDC in the ordinary course of business; the purchase price was based on an expert appraisal, therefore, ČD did not receive any economic benefit over and above the actual value of the business; and the transfer of the business for no consideration would not have been practicable due to certain constraints imposed under Czech laws.

  In June 2012, the EU Commission informed the Czech Republic that it considered the complaints submitted by RegioJet, a.s. in 2010 to have been withdrawn because RegioJet, a.s. had not provided it with further information necessary to substantiate the complaints. However, the EU Commission indicated that it may reconsider this decision and reopen the investigation if new evidence were to be provided to it or were otherwise revealed (please see "*Risk Factors—Risk Factors Related to the*

Group's Business—ČD has faced allegations that certain disposals of its assets have or may constitute unlawful State aid'' above for a description of related risks).

- In October 2011, the Office for the Protection of Competition commenced an investigation as to whether ČD abused its dominant position by temporarily setting low prices for the passenger rail transport services provided on the main train route in the Czech Republic between Prague and Ostrava in an attempt to eliminate competition. The investigation was commenced based on a complaint filed by RegioJet a.s. In February 2012, the Office for the Protection of Competition commenced formal administrative proceedings regarding this issue. While ČD believes that the complaint is unfounded, the Group can give no assurance that the Office for the Protection of Competition will not impose any sanctions in these proceedings.
- SŽDC claims that ČD Cargo failed to pay to SŽDC the price for using the railway capacity allocated to it in the period from 2008 to 2010 in the amount of approximately CZK 127.2 million. On 7 August 2011, SŽDC filed a court claim with the Municipal Court in Prague requesting the issuance of an order against ČD Cargo for the payment of this amount together with default interest. The Municipal Court in Prague issued such order on 5 October 2011. On 18 October 2011, ČD Cargo filed a protest against this order. The first court hearing took place on 16 March 2012 and was adjourned until 18 May 2012 for the purpose of obtaining further evidence. After hearing such further evidence on 18 May 2012, the Municipal Court in Prague adjourned the hearing for an indefinite period.
- On 9 April 2004, ČD and Škoda Transportation entered into a purchase agreement for the supply by Škoda Transportation of 20 electrical triple-system locomotives (the ''**Purchase Agreement**''). The purchase price for the supply of the locomotives was agreed at approximately CZK 2.7 billion (excluding VAT).

  As at the date of this Prospectus, ČD has paid approximately CZK 2.2 billion (including VAT) in connection with the Purchase Agreement. However, certain deadlines for the delivery of the locomotives and for the provision of documentation required for their operation internationally (as specified in the Purchase Agreement) have not been met. Furthermore, certain of the locomotives are still to be delivered (please see ''*Description of the Issuer—Business Strategy—Commercial*''). Accordingly, ČD has requested that Škoda Transportation pay a contractual penalty in respect of the delays and for its failure to deliver all of the locomotives in the amount of approximately CZK 734.7 million, as quantified by ČD as of 27 March 2012. However, as ČD and Škoda Transportation are in disagreement as to whether Škoda Transportation is liable for the delayed delivery of the locomotives, ČD has unilaterally set-off its obligation to make certain payments under the Purchase Agreement in the amount of approximately CZK 208.3 million against the contractual penalty claimed from Škoda Transportation (the ''**Price Set-Off**''). In July 2012, it was reported that Škoda Transportation had commenced arbitration proceedings against ČD in respect of this dispute. However, as of the date of this Prospectus, ČD has not received any official communication regarding such proceedings.

  The Group cannot provide any assurance that Škoda Transportation will comply with the remainder of its obligations under the Purchase Agreement and, if not, whether ČD will be able to recover payments already made. Furthermore, there can be no assurance that ČD will be able to collect the contractual penalty requested, nor can it be ruled out that Škoda Transportation will not demand default interest on the Price Set-Off on the grounds that it is unauthorised. The materialisation of any of these risks could have a material adverse effect on the Group's business, financial condition, results of operations and reputation (please see ''*Risk Factors—Risk Factors Related to the Group's Business—Business risks—The Group is subject to a legal dispute with ŠKODA TRANSPORTATION a.s.*'' above for a description of related risks).
- In 2011, ČD and Siemens AG Österreich (''**Siemens**'') intended to enter into an agreement for the supply to ČD of Viaggio Comfort non-traction units for long-distance passenger rail transportation for total consideration of approximately EUR 200 million. Škoda filed a complaint in respect of this transaction with the Office for the Protection of Competition alleging that it breached the Public Procurement Act. The Office for the Protection of Competition rejected this complaint on 5 September 2011 and the said contract with Siemens was entered into on 30 September 2011. Škoda appealed the decision but the decision was upheld by the Chairman of the Office for the Protection of Competition on 21 February 2012. In April 2012, Škoda further appealed the decision to the Regional Court in Brno requesting that the decision of the Office for the Protection of Competition be cancelled and the case returned to the Office for the Protection of

Competition for review. The proceedings at the Regional Court in Brno are in their early stage and a hearing has not yet been scheduled.

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

RELATED PARTY TRANSACTIONS

Loans to Related Parties

The Group provided no loans to related parties as of and for the years ended 31 December 2011 and 31 December 2010.

Remuneration and Benefits of Key Management Members

In addition to the possibility of using reduced fares, the members of ČD's statutory and supervisory bodies were provided with cash bonuses of CZK 40,933 thousand and CZK 24,446 thousand in 2011 and 2010, respectively. Management of ČD is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

For remuneration and benefits provided to key management members, please refer to section 30.2 of the consolidated audited financial statements of ČD as of and for the year ended 31 December 2011.

SŽDC

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

Pursuant to capacity allocation agreements, the Group uses the railway network infrastructure owned by SŽDC for carrying out its business activities (please see *"Material Contracts"* as well as *"Ongoing Material Litigations"* above for more details). Until 1 September 2011 (when ČD transferred to SŽDC the railway operation services part of its business including, among others, approximately 9,300 of ČD employees), ČD also provided to SŽDC traffic control services pursuant to a contract between ČD and SŽDC dated 1 July 2008. ČD received reimbursement of CZK 5.194 billion and CZK 3.267 billion for the provision of the railway operation services to SŽDC pursuant to this contract in 2010 and the first eight months of 2011, respectively. This contract was terminated as of the date of the above transfer.

The relationship with SŽDC has been formed by Government policies in respect of the railway industry in the Czech Republic in general and the restructuring of the Group in particular (please see "*Sole Shareholder and Relationship with the State—Restructuring Effort*" and "*Property—Expected Sale of Property*" above for more details).

For transactions with SŽDC, please refer to section 30.3 of the consolidated audited financial statements of ČD as of and for the year ended 31 December 2011.

INDUSTRY OVERVIEW

The Czech Republic's railway infrastructure is extensive relative to the size of the country. The density of the railway network in the Czech Republic is high, exceeding that of both Germany and France. The high density of the rail network allows railway carriers to operate competitively against other modes of transportation.

The table below sets out a comparison of the length and density of the railway network of the Czech Republic versus the railway network of other countries in the region. The railway length figures are correct as of 31 December 2010, except for figures provided in respect of the Czech Republic, France and Hungary, which are given as of 31 December 2009. Density is calculated by dividing the total track length in a country in kilometres by such country's area in square kilometres:

Country	Railway length	Railway density
	(*km*)	(*km per 1,000km*^{2})
Czech Republic	9,578	121.4
Germany	37,679	105.5
France	29,466	53.9
Poland	20,228	64.7
Hungary	7,390	79.4
Austria	5,828	69.5
Bulgaria	4,098	37.0
Slovakia	3,622	74.2

Source: Eurostat

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

Country	Carrier	Train kilometres
Germany	DB AG	885.5
France	SNCF	454.6
Italy	FS SpA	301.8
Poland	PKP	179.6
Spain	RENFE	178.2
Czech Republic	CD	148.9
Netherlands	NS	113.3
Belgium	SNCB NMBS	91.4
Austria	ÖBB	53.8

Source: UIC 2010

The number of carriers utilising the railway infrastructure in the Czech Republic has increased from 50 in 2004 to 68 in 2010. This increase has been particularly driven by an increase in the number of carriers operating freight transport.

The below table illustrates the increase in the number of carriers in the Czech Republic between 2004 and 2010:

Year	2004	2005	2006	2007	2008	2009	2010
No. of carriers	50	52	53	56	53	62	68

Source: SŽDC Annual Report 2010

Passenger Transportation

Modes of Passenger Transportation

Railway passenger transport in the Czech Republic, as measured by the number of passengers, has decreased by approximately 12.1 per cent. since 2000, reflecting a general trend in the railway industry observed in many European countries. Bus transport in the Czech Republic has declined by over 15.1 per cent. over the same period. In contrast, air travel in the Czech Republic has also increased and has more than doubled since 2000, as a result of decreasing air travel fares and increasing market penetration by low cost carriers. The increase in passenger car transport since 2000 has been driven by increasing disposable household incomes as the Czech economy has enjoyed robust economic growth.

The table below shows the performance of the different modes of passenger transport in the Czech Republic as measured by millions of passengers in 2000, 2009 and 2010:

	Year		
	2000	2009	2010
Rail transport	184.7	165.0	164.8
Bus transport	438.9	367.6	381.2
Air transport	3.5	7.4	7.5
Inland waterway transport	0.8	1.2	0.9
Urban public transport	2,289.7	2,262.0	2,260.3
Passenger car transport	1,980.0	2,240.0	1,970.0

Source: Transport Yearbook by the Ministry of Transportation 2010
Note: Urban public transport refers to public transport in intra-city transportation

The table below shows the performance of different modes of passenger transport in the Czech Republic as measured by millions of passenger kilometres* in 2000, 2009 and 2010:

	Year		
	2000	2009	2010
Rail transport	7,229.6	6,503.2	6,590.7
Bus transport	9,351.3	9,469.6	10,815.6
Air transport	5,864.7	11,330.5	10,902.0
Inland waterway transport	7.7	10.5	12.8
Urban public transport	14,541.4	15,555.1	15,617.4
Passenger car transport	63,940.0	72,290.0	63,570.0

Source: Transport Yearbook by the Ministry of Transportation 2010
Note: Urban public transport refers to public transport in intra-city transportation
** Passenger kilometres refers to the transport of one rail passenger by rail over a distance of one kilometre*

Passenger Railway Transportation Usage

The following statistics provide a comparative overview of passenger rail transportation in a number of European countries for the year ended 31 December 2010:

Carrier	Country	Distance Run per Inhabitant	Number of Railway Journeys
		(kilometres)	*(per inhabitant)*
ČD	Czech Republic	622	15
SNCF	France	1,305	17
OBB	Austria	1,212	25
DB	Germany	945	23
MAV	Hungary	527	10
ZSSK	Slovakia	422	8
PKP	Poland	411	5
BDZ	Bulgaria	280	4

Source: UIC 2010, Eurostat

The Czech Republic's railway passenger transport market can be divided into three segments: regional, long-distance and commercial. The table below shows the performance of these segments in 2011 as measured by train kilometres:

	Train Kilometres	
	(thousand)	*(per cent.)*
Regional	82,075	67
Long-distance	36,750	30
Commercial	3,675	3

Source: ČD Data 2011

Domestic Passenger Market

In 2010, ČD provided 99.4 per cent. of all passenger rail transportation in the Czech Republic (as measured by passenger-kilometres) according to SŽDC. ČD's dominant share in passenger rail transportation is also reflected in gross tonne kilometres and train kilometres travelled. Please see the table below for the figures:

	Gross tonne kilometres		Train kilometres Travelled	
Carrier	**2009**	**2010**	**2009**	**2010**
		(per cent.)		
ČD	99.82	99.76	99.18	99.04
Viamont	0.13	0.16	0.60	0.76
OKD	0.01	0.03	0.10	0.07
Other carriers	0.04	0.05	0.12	0.13

Source: SŽDC Annual Report 2010

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

ČD benefits from low labour costs, resulting in a competitive operating cost position compared to other European railway carriers, as detailed in the table below, which contains data for the year ended 31 December 2010:

		Staff costs per full-time employee	Passenger traffic cost per km
		(EUR p.a.)	*(EUR cents)*
ČD	Czech Republic	19,194	11.9
SNCB	Belgium	57,993	19.7
NSB	Norway	55,263	16.6
OBB	Austria	51,534	12.0
SNCF	France	50,436	14.6
DB	Germany	48,450	-
NS	Netherlands	47,435	16.1
PKP	Poland	13,554	7.2

Source: UIC 2010. Annual reports FYE 2010 of the respective operators (except OBB, 2009)

Freight Transportation

Due to its geographical position, the Czech Republic serves as a key transportation corridor for freight between East and West Europe. According to the UIC, ČD Cargo was ranked as the fourth largest freight carrier in Europe as measured by tonnes carried in 2011. According to SŽDC statistics, ČD Cargo is also the dominant domestic player with a market share of over 80 per cent. of the freight transportation market in the Czech Republic from 2008 to 2011.

Modes of Freight Transportation

To an extent, road and rail transportation are in competition, road transport is favoured over rail transport for the transport of higher value-added goods (e.g., manufactured products) as the flexibility offered by road networks enables products to be delivered from door to door. Commodities with high volume and weight as compared to their value (such as coal, metals and mining materials) are more suited to transport by rail. Waterways do not represent a viable alternative to rail transportation, while air is typically used for more important or urgent goods deliveries due to its higher cost.

The two tables below provide an overview of the modes of transport for the transport of goods and the respective volumes of goods transported in 2000 and 2006 through 2010:

	Transport of goods by mode					
	2000	2006	2007	2008	2009	2010
	(thousands of tonnes)					
Total transport of goods	**523,249**	**554,994**	**565,708**	**540,731**	**458,328**	**451,671**
Rail transport	98,255	97,491	99,777	95,073	76,715	82,900
Road transport	414,725	444,574	453,537	431,855	370,115	355,911
Inland waterway transport	1,907	2,032	2,242	1,905	1,647	1,642
Air transport	16	22	22	20	14	14
Oil pipeline transport	8,346	10,875	10,131	11,877	9,837	11,205

Source: Ministry of Transportation, Yearbook 2010

	Transport performance					
	2000	2006	2007	2008	2009	2010
	(millions of tonne – kilometres)					
Total transport	**58,952**	**69,304**	**67,463**	**69,528**	**60,571**	**68,495**
Rail transport	17,496	15,779	16,304	15,437	12,791	13,770
Road transport	39,036	50,369	48,141	50,877	44,955	51,832
Inland waterway transport	771	818	898	863	641	679
Air transport	38	47	41	37	28	22
Oil pipeline transport	1,612	2,291	2,079	2,315	2,156	2,191

Source: Ministry of Transportation, Yearbook 2010

The table below provides a comparison of the increase in usage for the different modes of transportation. This illustrates the significant increase in road transportation relative to rail transport.

	Average distance of goods transported					
	2000	2006	2007	2008	2009	2010
	(kilometres)					
Aggregate Average Distance	**112.7**	**124.9**	**119.3**	**128.6**	**132.2**	**151.8**
Rail transport	178.1	161.8	163.4	162.4	166.7	166.1
Road transport	94.1	113.3	106.1	117.8	121.5	154.6
Inland waterway transport	404.1	402.6	400.7	452.9	388.9	413.7
Air transport	2,350.6	2,142.2	1,887.4	1,806.7	2,000.1	1,648.9
Oil pipeline transport	193.1	210.7	205.2	194.9	219.2	195.5

Source: Ministry of Transportation 2010, ČD Cargo

Rail Freight Transportation Segmentation

ČD Cargo transports freight relating to a range of industrial sectors. The table below shows the proportion of freight in each industry sector (according to volume) transported by ČD Cargo in 2011:

	Transportation by freight type of ČD Cargo
	(per cent.)
Solid fuels (coal and lignite)	30
Metals & Mining (excluding coal and ignite)	20
Building materials	8
Large containers (including consumer goods)	11
Paper and paper products	5
Liquid fuels (oil and gas)	7
Automotive	1
Chemical and agricultural products	1
Food and agricultural products	1
Others	16
Total	100

Source: ČD Cargo data, May 2012

Rail Freight Market

The Czech freight market can be divided into local, transit, export and import traffic. The combined cross-border freight volumes of ČD Cargo (aggregating transit traffic, export and import traffic) represented approximately 61 per cent. of ČD Cargo's freight volumes in 2011.

	Freight traffic
	(per cent.)
Local	39
Import	27
Transit	8
Export	26
Total	100

Source: ČD Cargo data, May 2012

The Czech freight market, which represented approximately 37 per cent. of total freight volumes for the year ending 31 December 2010, is fully liberalised and deregulated. ČD Cargo dominates the domestic market with an 85 per cent. share (per gross tonne kilometre) of the total transported volume in the Czech Republic in 2011, and operates the largest railcar fleet. As of 31 December 2011, the other key players in the freight market include AWT (former OKD) with a 5.63 per cent. market share (per gross tonne kilometre), Unipetrol Doprava with a 3.62 per cent. market share (per gross tonne kilometre) and Ostravská dopravní společnost with a 0.73 per cent. market share (per gross tonne kilometre). Domestic competitors tend to specialise in one commodity and/or are subsidiaries of larger industrial companies and therefore do not compete with ČD Cargo for the transport of freight across all commodities.

Overall, ČD Cargo enjoys a dominant position in the rail freight transportation market in the Czech Republic, vis-à-vis the other domestic carriers as shown in the table below:

Carrier	2009 Gross Tonnes km*	2010 Gross Tonnes km*	2009 Train km**	2010 Train km**
	Transportation of Freight by Rail			
		(per cent.)		
ČD Cargo.	88.77	86.84	79.54	78.19
Advanced World Transport (OKD)***	5.18	5.63	3.56	4.14
Unipetrol Doprava	2.80	3.62	2.21	2.96
ČD	0.39	0.89	3.38	4.28
Ostravská dopravní společnost	0.42	0.73	0.30	0.52
PKP Cargo		0.42		0.44
TSS	0.50	0.37	1.38	0.99
BF Logistics	0.19	0.29	0.23	0.28
LTE Logistik a Transport Czechia	0.05	0.2	0.04	0.14
Sokolovská uhelná	0.1	0.13	0.09	0.1
Other carriers	1.6	0.88	9.27	7.96

Source: SŽDC Annual Report 2010

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

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

*** *OKD, Doprava, a joint stock company, changed its name to Advanced World Transport, a.s., as of 1 May 2010*

International Freight Market by Carrier

ČD Cargo ranked as the fourth largest freight carrier in Europe as measured by tonnes carried in 2010 and in 2011. Only Deutsche Bahn, Polskie Koleje Państwowe S.A (PKP) and ÖBB transported a greater volume of rail freight than ČD Cargo in each of these years. The table below shows Europe's largest railway freight transportation companies according to tonnes of freight carried in 2010 and 2011:

Country	Carrier	Wagonload Freight Traffic Overall 2010	2011	
		(thousand tonnes carried)		(percentage change)
Germany	DB Schenker Rail AG (Deutsche Bahn)	415,406	411,628	-0.9
Poland	PKP Cargo SA	128,035	140,503	9.7
Austria	OBB (Rail Cargo Austria + Rail Cargo Hungaria)	117,600	135,000	14.8
Czech Republic	ČD Cargo (without company consignments)	76,561	78,523	2.6
Lithuania	LG	48,061	52,329	8.9
Switzerland	SBB CFF FFS	50,042	48,600	-2.9
France	SNCF Fret	64,430	48,403	-24.9
Latvia	LDZ	49,163	48,403	-1.5
Slovakia	ZSSK Cargo	38,610	37,483	-2.9
Italy	FS	42,348	35,394	-16.4
Finland	VR	35,795	34,827	-2.7
Estonia	EVR	29,632	30,504	2.9
Turkey	TCDD	23,741	21,185	-10.8
Spain	RENFE	16,064	17,326	7.9

Source: UIC, ČD Cargo, May 2012

EU ACCESSION AND THE IMPACT ON THE CZECH RAILWAY INDUSTRY

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

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

The basic principles of modernisation include:

- Introducing higher track speed on sufficiently long sections;
- Achieving track load class D4 UIC for the level of track speed of 120 km/h inclusive (i.e. building up the railway network complying with the set rolling stock load standards);
- Introducing structural gauge for loading gauge UIC GC and broader vehicles according to ČSN 73 6320 (i.e. building up the railway network complying with the set spatial structural standards for rolling stock transit);
- Ensuring requested path capacity at the currently defined optimised scope of the railway infrastructure (i.e. building up the railway network allowing for optimised railway network operation);
- Equipping routes with such a technological device that will provide full operation safety at the track speed of up to 160 km/h;
- Equipping railway stations with platforms in compliance with Regulations No. 177/1995 Coll. and 369/2001 Coll. (i.e. ensuring that the length, width, high and other technical parameters will be in compliance with the standards set by Regulations No. 177/1995 Coll. and 369/2001 Coll. and will allow for safe manoeuvring of persons, including disabled persons);
- Achieving sufficient effective length of rails at railway stations (i.e. building up station tracks in the length corresponding to the length of the rolling stock assigned for the particular railway track); and
- Improving the condition of level crossings with communications over land.

EUROPEAN FUNDING PROGRAMMES

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

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

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

The most significant sources of funds for ČD are currently the Regional Operational Programmes which ČD intends to use when purchasing new rolling stock to be used in regional transport. Within these Regional Operational Programmes, ČD is also applying to receive funds for modernisation of certain railway stations. ČD also successfully applied for a grant within the Operational Programme for the Environment for displacement of ecological damages in the area of the Brodek u Přerova station. The application was for an amount of approximately EUR 3 million, although a lesser amount may be received. ČD also participates in several projects within the EUR Framework Programme and via the Operational Programme for Transnational Cooperation.

ČD received funding from the Operational Programme Transport for the project to install the GSM-R system to 600 ČD locomotives. The total budget of the project is EUR 11 million.

OVERVIEW OF THE CZECH REPUBLIC

The Czech Republic is situated in the centre of Europe, bordering Germany to the west, Poland to the north, Slovakia to the east and Austria to the south. Its borders are mostly formed by forested mountain ranges and hills, except in the south-east where it shares lowlands with Austria and Slovakia. A developed road and rail network connects its two main regions, Bohemia and Moravia. The Czech Republic covers an area of approximately 78,885 square kilometres and its population is estimated to be approximately 10.5 million inhabitants.

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

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

Brief Overview of the Czech Republic's Economy

While ČD operates internationally, the vast majority of its revenues are generated within the Czech Republic. The Czech Republic has an open and export-driven economy with significant contribution to GDP from manufacturing. The Czech Republic had enjoyed a period of buoyant growth since its accession to the EU in 2004 until a drop in economic activity in 2009 of 4.7 per cent. amid the global financial crisis. The economic growth slowdown was predominantly driven by a decline in exports and a reduction in industrial activity. The economy recorded 1.7 per cent. growth in 2011, underpinned by a rebound in industry sales of 7.2 per cent. year-on-year. The construction industry is yet to fully recover. According to the Czech Statistical Office, household consumption grew by 0.6 per cent. in 2010 and decreased by 0.5 per cent. in 2011.

The Czech Republic ran budget deficits of 4.8 per cent. and 3.1 per cent. in 2010 and 2011, respectively. The State debt measured by proportion to GDP equalled 35.6 per cent. and 39.4 per cent. in 2010 and 2011, respectively.

The table below shows key indicators for the Czech Republic economy between 2005 and 2011:

Indicator	2005	2006	2007	2008	2009	2010	2011
				(per cent.)			
GDP(1)	6.8	7.0	5.7	3.1	-4.7	2.7	1.7
Final consumption expenditure(1)	2.7	2.9	3.1	2.3	0.8	0.6	-0.8
Gross capital formation expenditure(1)	4.3	10.2	15.5	1.9	-20.8	5.9	-1.6
Gross fixed capital formation expenditure(1)	6.0	5.8	13.2	4.1	-11.5	0.1	-1.2
Exports of goods and services(1)	11.8	14.0	11.3	3.9	-10.0	16.6	11.0
Imports of goods and services(1)	6.1	11.0	12.9	2.7	-11.7	16.2	7.5
Industrial output(2)	6.9	8.5	14.1	-0.3	-15.9	9.8	7.2
Construction output(1)	5.2	6.0	7.1	0.0	-0.9	-7.1	-3.5
Services – sales(1)	-	4.6	8.7	0.2	-9.9	-0.8	-1.5
Agriculture – sales(1)	8.0	-3.7	-6.6	-3.8	7.1	6.4	11.8
CPI(3)	1.9	2.5	2.8	6.3	1.0	1.5	1.9
Registered rate of unemployment (new methodology)	8.96	8.13	6.62	5.44	7.98	9.01	8.57
State budget balance/GDP	-1.8	-2.9	-1.8	-0.5	-5.1	-4.1	-3.7
General government debt/GDP	28.4	28.3	27.9	28.7	34.4	38.1	41.2
State debt/GDP	22.2	23.9	24.4	26.0	31.5	36.6	39.4
CZK/EUR exchange rate	29.784	28.343	27.762	24.942	26.455	25.290	24.586

Source: Czech Statistical Office

(1) *Year-on-year, real terms.*

(2) *Year-on-year, current per cent.*

(3) *Year-on-year, average*

International Comparison

GDP per Capita in Purchasing Power Standard

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

GDP per Capita in Purchasing Power Standard:

	2007	2008	2009	2010
		(per cent.)		
Czech Republic	83	81	82	80
Poland	54	56	61	63
Hungary	62	64	65	65
Slovakia	68	73	73	74
Slovenia	88	91	87	85
EU15	111	111	110	110

Source: Eurostat database
Note: Indexed to EU27 (100 per cent.)

Fiscal Balance

The Czech Republic maintains a low budget deficit relative to certain other CEE countries and the Eurozone average for 2010 and 2011. In 2011, the general government deficit of the Czech Republic was lower than in most Eurozone countries (at CZK 117.9 billion which is approximately 3.1 per cent. of GDP). Please see the below table for the figures:

Budget Deficit as a per cent. of GDP:

	2010	2011
	(per cent.)	
Czech Republic	-4.8	-3.1
Poland	-7.8	-5.1
Hungary	-4.2	-4.3
Slovakia	-7.7	-4.8
Slovenia	-6.0	-6.4
Euro area	-6.2	-4.1

Source: Eurostat database

General Government Debt

The Czech Republic has low government indebtedness compared to certain other CEE countries and the Eurozone average for 2010 and 2011. Please see the below table for the figures:

General Government Debt as a per cent. of GDP:

	2010	2011
	(per cent.)	
Czech Republic	38.1	41.2
Poland	54.8	56.3
Hungary	81.4	80.6
Slovakia	41.1	43.3
Slovenia	38.8	47.6
Euro area	85.3	87.2

Source: Eurostat database

Impact of the economic downturn on ČD and recent developments

ČD saw a rise in volumes of passenger-kilometres of 1.4 per cent. in 2010 as compared to 2009 while passenger kilometres in 2011 increased by 1.3 per cent. as compared to 2010.

In 2010, freight transport measured by volume transported (including empty wagons) increased by 12 per cent. as compared to 2009 (mainly driven by iron and machinery, which increased by 25 per cent., wood and paper materials, which increased by 13 per cent., and coal and coke, which increased by 11 per cent.). In 2011, freight transport measured by volume transported (including empty wagons) increased by 3 per cent. as compared to 2010 (mainly driven by large containers, which increased by 11 per cent., buildings materials and brown coals, which increased by 8 per cent.).

THE REGULATORY FRAMEWORK

Railway transport laws in the EU

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

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

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

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

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

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

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

Railway transport laws in the Czech Republic

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

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

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

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

Anti-Trust Regulations

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

In this regard, companies and other market participants occupying a dominant position in the relevant market, such as ČD and its Group, may not abuse their position as stipulated by of the Act (143/2001 Coll.) on the Protection of Competition, as amended (the "**Czech Competition Act**") and by the Treaty on the Functioning of the EU. Such abuse may, in particular, consist of imposing unfair prices or other trading conditions, limiting production or technical development, discriminating between customers or suppliers (thereby placing them at a competitive disadvantage) or making the conclusion of contracts subject to the acceptance by the other parties of supplementary unrelated obligations.

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

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

Public Procurement Laws

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

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

Labour Regulation/Union Laws

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

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

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

TAXATION

Czech Taxation

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

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

Interest

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

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

Capital Gains

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

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

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

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

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

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

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

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

Other Taxes

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

Luxembourg Taxation

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

All payments of arm's length interest and principal by any Luxembourg paying agent within the meaning of the Luxembourg laws of 21 June 2005 implementing the EU Savings Directive and certain related agreements (the ''21 June 2005 Laws''), under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

(i) the application of the 21 June 2005 Laws, providing for the possible application of a withholding tax (35 per cent. from 1 July 2011) on interest paid to or for the immediate benefit of certain non-Luxembourg resident investors (individuals and certain types of entities called ''residual entities'' as defined in the Luxembourg laws of 21 June 2005) in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the 21 June 2005 Laws, unless the relevant beneficiary consents to disclose certain information;

(ii) the application as regards interest paid by a Luxembourg paying agent to or for the immediate benefit of Luxembourg resident individuals (i.e.; certain residual entities held by Luxembourg resident individuals) of the Luxembourg law of 23 December 2005 which has introduced a 10 per cent. final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive) unless in case of residual entities that entity consents to disclose certain information. This law should apply to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.

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

EU Savings Tax Directive

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual or certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system (the applicable rate of withholding now being 35 per cent.) in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The withholding system is subject to an exception whereby the beneficial owner of the interest or other income may elect for the exchange of information instead. A number of non-EU countries and territories including Switzerland have adopted, or agreed to adopt, similar measures (a withholding system in the case of Switzerland) and certain dependent or associated territories of EU Member States have adopted the same measures. The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If an amount of, or in respect of, tax were to be withheld from a payment of principal or interest under a Note, pursuant to the EU Savings Directive, any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. See Condition 9 (*Taxation*) of the "*Terms and Conditions of the Notes*". However, the Issuer is required, as provided in Condition 13 (*Agents*) of the "*Terms and Conditions of the Notes*", to maintain a Paying Agent in a Member State that does not impose an obligation to withhold or deduct tax pursuant to the EU Savings Directive or any law implementing or complying with, or introduced in order to conform to, the EU Savings Directive or any such other Directive.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Citigroup Global Markets Limited and ING Bank N.V., London Branch (the "**Joint Lead Managers**") have, in a subscription agreement dated 18 July 2012 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.821 per cent. of their principal amount less a combined management and underwriting commission. The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United Kingdom

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

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended (the ***FSMA***)) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

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

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions in reliance on Regulation S under the Securities Act.

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

> "The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering or the issue date of the Notes, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Czech Republic

(a) **No Notes issued in Czech Republic**: None of the Notes has been issued or will be issued in the Czech Republic within the meaning of the Czech Act on Bonds No. 190/2004 Coll., as amended (the "**Bonds Act**") and no application for an approval of the terms and conditions of the issue of any of the Notes has been filed with the Czech National Bank. The Issuer will, however, notify the Czech National Bank in accordance with the Bonds Act and the Czech Foreign Exchange Act No. 219/1995 Coll., as amended, of the issue of the Notes and provide the details thereof as required under these laws.

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

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

Each Joint Lead Manager has represented, warranted and undertaken that, to the best of its knowledge and belief, (i) it has not taken and it will not take any action which would result in an approval of the Czech National Bank (or any organiser of a regulated market in the Czech Republic) being required in respect of the Notes in accordance with the Bonds Act or the Capital Market Act and (ii) it has complied and will comply with all other applicable provisions (if any) of the Bonds Act, the Capital Market Act and other laws of the Czech Republic (as they may be further amended or superseded from time to time) with respect to anything done by it in relation to the Notes in, from or otherwise involving the Czech Republic.

Switzerland

The Notes will not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Prospectus nor any other marketing material relating to the Notes will be publicly distributed or otherwise made publicly available in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the offering, nor the Issuer nor the Notes have been or will be filed with or approved by any Swiss regulatory authority.

General

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

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 15 May 2012, a resolution of the Supervisory Board of the Issuer dated 23 May 2012 and a resolution of the Board of Directors of the Issuer dated 29 May 2012.

Listing and admission to trading

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

   The total expenses related to the admission to trading of the Notes are expected to be approximately EUR 6,345.

Legal and Arbitration Proceedings

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

Significant/Material Change

4. Since 31 December 2011 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries nor any significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

Auditors

5. The consolidated financial statements prepared by the Issuer in accordance with IFRS have been audited without qualification for the years ended 31 December 2010 and 2011 by Deloitte Audit s.r.o., Nile House, Karolinská 654/2, 186 00 Prague 8 – Karlín, Czech Republic, an audit company registered with the Czech Chamber of Auditors.

Interest of Persons Involved in Issuance and Offering of Notes

6. Certain of the Joint Lead Managers and/or their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

Documents on Display

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

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

   b) Consolidated financial statements of the Issuer prepared in accordance with IFRS as of and for the financial years ended 31 December 2011 and 2010;

   c) Unconsolidated statutory financial statements of the Issuer prepared in accordance with Czech GAAP as of and for the financial years ended 31 December 2011 and 2010;

   d) Unconsolidated statutory financial statements of ČD Cargo prepared in accordance with Czech GAAP as of and for the financial years ended 31 December 2011 and 2010;

   e) this Prospectus;

   f) the Subscription Agreement;

   g) the Fiscal Agency Agreement; and

   h) the Deed of Covenant.

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

Yield

8. On the basis of the issue price of the Notes of 99.821 per cent. of their principal amount, the gross real yield of the Notes is 4.155 per cent. on an annual basis.

ISIN and Common Code

9. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0807706006 and the common code is 080770600.

10. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JI Kennedy L-1855 Luxembourg.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

The following pages have been extracted from the publicly available audited consolidated financial statements of the Issuer as of and for the financial years ended 31 December 2011 and 2010.

Contents **Pages**

České dráhy, a.s.

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

AS OF 31 DECEMBER 2011

Deloitte.

Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 - Karlín
Czech Republic

Tel.: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered at the Municipal Court in Prague, Section C, File 24349
Id. Nr.: 49620592
Tax Id. Nr.: CZ49620592

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

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.

In Prague on 10 April 2012

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

Deloitte

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:

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

INCOME STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF CHANGES IN EQUITY

CASH FLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements were prepared on 10 April 2012.

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

České dráhy, a.s.

Consolidated Financial Statements for the Year Ended 31 December 2011

prepared under IFRS as adopted by the EU

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

	Year ended 31 Dec 2011 CZK thousand	Year ended 31 Dec 2010 CZK thousand
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

	Share capital	Reserve and other funds	Retained earnings	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand
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,	0				0	
net of tax		553 247	0	553 247		553 247
Allocation to the reserve fund	0	5 291	-5 291	0	0	0
Other	0	1 006	0	1 006	0	1006
Sale of TSS	0	0	0	0	-456 422	-456 422
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,	0				0	
net of tax		42 862	0	42 862		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

	Year ended 31 Dec 2011 CZK thousand	Year ended 31 Dec 2010 CZK thousand
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**

	Year ended 31 Dec 2011 CZK thousand	Year ended 31 Dec 2010 CZK thousand
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 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
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.

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 2010

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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
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*	*-12230*	*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	- 5194	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	- 9690
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	-2 557	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	-329	-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 spoločnosť Cargo Slovakia, a.s., Rail Cargo Austria AG and PKP Cargo S.A.

15. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

15.1. Sale of Traťová strojní společnost, a.s. ("TSS")

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 '000)

	2011	Change in presentation 2010	Original presentation 2010	Changed data 2010
		Management of operations	TSS + other	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**	**-22798**	**-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 '000)

	2011	2010	2010	2010
		Management of operations	TSS + other	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 '000)

	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 '000)
	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 '000)
	31 August 2011	18 August 2010
Trade payables	0	145361
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 '000)

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**

(CZK '000)

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**

(CZK '000)

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 '000)

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 '000)
	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 '000)
	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 '000)

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**

(CZK '000)

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**

(CZK '000)

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**

(CZK '000)

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 '000)

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 '000)

	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 '000)

	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 '000)

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 '000)

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

20. INVENTORIES

(CZK '000)

	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 '000)

	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 '000)

	Category	Before due date	Past due date (days) 1 - 30 days	31 - 90	91 - 180	181 - 365	365 and more	Total past due date	Total
31 Dec 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 '000)

	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 '000)

	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 '000)

	Minimum lease payments 31 Dec 2011	31 Dec 2010	1 Jan 2010	Present value of minimum lease payments 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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 '000)

	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 results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes 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 '000)

Year	Category	Before due date	Past due date (days) 1 – 30 days	31 – 90 days	91–180 days	181-365 days	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 '000)

	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 '000)

	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 '000)

	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 '000)

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 '000)

2010	Expenses	Income
Servicing railway routes	500	5 194 373
Use of railway route and allocated capacity of the railway route – passenger transportation	1 444 051	0
Use of railway route and allocated capacity of the railway route – freight transportation	2 555 241	0
Consumed traction electricity	955 465	0
Other	302 839	72 270
Total	**5 258 096**	**5 266 643**

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 '000)

	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 '000)

	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 '000)

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 '000)

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 '000)

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 '000)

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 '000)

31 Dec 2010	EUR	USD	Other	Total
Financial assets	1 741 361	4 443	1 566	1 747 370
Financial liabilities	-6 468 221	-14 705	-2 198	-6 485 124
Total	**-4 726 860**	**-10 262**	**-632**	**-4 737 754**

(CZK '000)

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 '000)

	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 '000)

Sale	Average currency exchange rate	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 '000)

Purchase	Average currency exchange rate	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:

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	4.231%	27 265
1 to 5 years	240 000	4.5%	- 5 827 715	4.231%	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 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 '000)

	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 '000)

	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 '000)

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 '000)

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 '000)

31 Dec 2010	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 244 923	3 999 209	1 157 347	1 012 514	28 285	9 442 278
Derivatives	42 094	25 193	80 987	178	0	148 452
Finance lease liabilities	78 670	159 051	732 038	3 819 478	2 719 499	7 508 736
Variable interest rate instruments	1 414 280	14 978	1 059 822	3 641 756	1 523 590	7 654 426
Fixed interest rate instruments	50 613	2 215 263	723 429	2 091 381	0	5 080 686
Total	**4 830 580**	**6 413 694**	**3 753 623**	**10 565 307**	**4 271 374**	**29 834 578**

(CZK '000)

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 '000)

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 '000)

31 Dec 2010	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 977 371	1 848 746	463 550	9 300	348 644	4 647 611
Derivatives	3 064	1 501	10 932	25 396	17 397	58 290
Finance lease assets	3 550	0	157	24 823	456 402	484 932
Fixed interest rate instruments	81 000	149 200	0	0	18 401	248 601
Total	**2 064 985**	**1 999 447**	**474 639**	**59 519**	**840 844**	**5 439 434**

(CZK '000)

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 '000)

	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 '000)

	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 February 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 dráhy, a. s., was completed. The transfer involved the shares representing 100% of the entity's share capital.

37. APPROVAL OF THE FINANCIAL STATEMENTS

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

České dráhy, a.s.

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

AS OF 31 DECEMBER 2010

Deloitte.

Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 - Karlín
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered at the Municipal Court in Prague, Section C, File 24349
IČ: 49620592
DIČ: CZ49620592

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

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

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

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

In Prague on 15 April 2011

Audit firm:

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

Deloitte

Statutory auditor:

Václav Loubek
certificate no. 2037

Consolidated Financial Statements for the Year Ended 31 December 2010

prepared under IFRS as adopted by the EU

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

Components of the Consolidated Financial Statements:

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

INCOME STATEMENT

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF CHANGES IN EQUITY

CASH FLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

These consolidated financial statements were prepared on 15 April 2011.

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

České dráhy, a.s.

Consolidated Financial Statements for the Year Ended 31 December 2010

prepared under IFRS as adopted by the EU

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

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

*) Restated, refer to Note 25

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

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

1 GENERAL INFORMATION

1.1 General Information

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

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

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

1.2 Principal Operations

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

1.3 Organisational Structure of the Parent Company

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

1.4 Bodies of the Parent Company

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

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

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

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

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

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

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

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

Audit Committee	
Chairman	Miroslav Zámečník
Member	Michael Hrbata
Member	Zdeněk Prosek

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

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

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

1.5 Definition of the Consolidation Group

1.5.1 Entities Included in the Consolidation

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

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

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

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

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

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

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

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

1.5.2 Changes in the Composition of the Group

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

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

2.2 Basis of Preparation

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

2.3 Basis of Consolidation

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

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

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

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

2.4 Revenue Recognition

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

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

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

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

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

2.5 Leases

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

2.5.1 The Group as a Lessor

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

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

2.5.2 The Group as a Lessee

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

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

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

2.6 Foreign Currencies

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

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

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

2.7 Borrowing Costs

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

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

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

2.8 Government Grants

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

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

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

2.9 Employee Benefit Costs

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

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

2.10 Taxation

The income tax includes current tax payable and deferred tax.

2.10.1 Current Tax Payable

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

2.10.2 Deferred Tax

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

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

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

2.10.3 Current Tax Payable and Deferred Tax for the Period

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

2.11 Property, Plant and Equipment

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

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

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

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

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

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

2.12 Investment Property

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

2.13 Intangible Assets

2.13.1 Intangible Assets Acquired Separately

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

2.13.2 Internally-Generated Intangible Assets - Development Expenditure

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

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

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

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

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

2.14 Impairment of Tangible and Intangible Assets

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

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

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

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

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

2.15 Investments in Associates

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

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

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

2.16 Investments in Subsidiaries and Associates Excluded from the Consolidation

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

2.17 Assets Held for Sale

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

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

2.18 Inventories

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

2.19 Provisions

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

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

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

2.20 Financial Instruments

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

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

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

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

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

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

2.20.1 Effective Interest Method

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

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

2.20.2 Held-to-maturity Investments

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

2.20.3 Financial Assets Available for Sale

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

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

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

2.20.4 Loans and Receivables

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

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

2.20.5 Impairment of Financial Assets

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

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

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

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

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

2.20.6 Derecognition of Financial Assets

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

2.20.7 Equity Instruments

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

2.20.8 Other Financial Liabilities

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

2.20.9 Derecognition of Financial Liabilities

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

2.20.10 Derivative Financial Instruments

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

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

2.20.11 Hedge Accounting

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

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

2.20.12 Cash Flow Hedges

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

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

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

3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

3.2 Standards and Interpretations Adopted in Advance of their Effective Dates

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

3.3 Standards and Interpretations in Issue not yet Adopted

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

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

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

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

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

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

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

4.1 Useful Lives of Property, Plant and Equipment

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

4.2 Impairment of Assets

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

4.3 Revenue and Expenses from International Transportation

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

4.4 Measurement of Financial Derivatives

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

4.5 Income Taxation

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

4.6 Provision for Employee Benefits

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

5 REVENUE FROM PRINCIPAL OPERATIONS

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

(CZK '000)

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

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

6 OTHER OPERATING INCOME

(CZK '000)

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

7 PURCHASED CONSUMABLES AND SERVICES

(CZK '000)

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

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

8 EMPLOYEE BENEFIT COSTS

		(CZK '000)
	2010	2009
Payroll costs	-12 615 357	-13 104 326
Severance pay	-488 414	-558 079
Statutory social security and health insurance	-4 273 286	-4 389 468
Benefits resulting from the collective agreement	-220 590	-231 188
Other social costs	-720 196	-711 127
Other employee benefit costs	-23 405	-18 833
Total employees benefit costs – continuing operations	**-18 341 248**	**-19 013 021**

9 DEPRECIATION AND AMORTISATION

		(CZK '000)
	2010	2009
Depreciation of property, plant and equipment	-5 275 551	-6 270 747
Depreciation of investment property	-68 764	- 44 372
Amortisation of intangible assets	-333 008	-386 823
Total depreciation and amortisation – continuing operations	**-5 677 323**	**-6 701 942**

10 OTHER OPERATING LOSSES

		(CZK '000)
	2010	2009
Change in provisions	-238 911	16 838
Losses (reversal of losses) from impaired receivables	11 115	-85 925
Losses (reversal of losses) from impaired property, plant and equipment	212 364	383 918
Write-down (reversal of the write-down) of inventories to their net realisable value	17 689	897
Taxes and fees	-53 905	-28 412
Other operating expenses	-572 777	-655 349
Total other operating losses – continuing operations	**-624 425**	**-368 033**

11 FINANCIAL EXPENSES

		(CZK '000)
	2010	2009
Interest on bank overdraft accounts and loans	-24 508	-47 009
Interest on finance lease payables	-189 289	-156 874
Other interest expenses	-257 971	-153 664
Less: amounts capitalised as part of the costs of an eligible asset	137 580	23 399
Unwinding of the discount of provisions	-20 908	-20 114
Other financial expenses	-3 824	-3 494
Total financial expenses – continuing operations	**-358 920**	**- 357 756**

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

12 OTHER GAINS

		(CZK '000)
	2010	2009
Net foreign exchange gains	293 486	125 123
Received dividends	37 351	38 859
Gain from the sale of securities and equity investments	0	420
Received interest	15 189	19 429
Gains from current financial assets	2 880	19 399
Banking fees	-21 952	-21 541
Actuarial gainsl	74 929	39 535
oss from derivative transactions	-3 179	0
Other	-12 116	-994
Total other gains - continuing operations	**386 588**	**220 230**

13 INCOME TAXATION

13.1 Income Tax Reported in Profit or Loss

(CZK '000)

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

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

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

(CZK '000)

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

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

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

13.2 Income Tax Recognised in Other Comprehensive Income

(CZK '000)

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

13.3 Deferred Tax

(CZK '000)

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

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

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

Given the low anticipated taxable profits of the Parent Company, the realisation of deferred tax assets is uncertain. For this reason, the Parent Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14 SEGMENT INFORMATION

14.1 Products and Services from which Reportable Segments Derive their Revenues

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Parent Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Group's reportable segments under IFRS 8 are therefore as follows:

Passenger transportation – other information on passenger railway transportation is disclosed in Note 14.3.

Freight transportation – other information on freight railway transportation is disclosed in Note 14.3.

Management of operations – the Group provides this activity for the operator of the railway route – SŽDC, other information is provided in Note 30.

Administration of assets – the segment provides the administration and operations of real estate owned by the Group, including internal and external leases. Real estate predominantly includes station buildings and land surrounding the railroad.

Other – predominantly activities of less significant subsidiaries and overhead activities that are not allocated to other segments.

14.2 Segment Revenues and Expenses

The following is an analysis of the Group's results from continuing operations by reportable segment in the format in which the financial statement is presented to the Parent Company's management. Results of individual segments are reported in accordance with Czech Accounting Standards. Adjustments made for reporting under IFRS are provided as part of the reconciliation of the segment statement with the income statement.

(CZK million)

2010	Passenger transportation	Management of operations	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	Total
Revenue from principal operations							
Revenue from passenger transportation	6 516	0	0	0	0	105	6 621
Revenue from securing railway routes	0	5 194	0	0	0	0	5 194
Payments from orderers	12 111	0	0	0	0	0	12 111
Other	119	52	3	14 098	6	-408	13 870
	18 746	**5 246**	**3**	**14 098**	**6**	**-303**	**37 796**
Purchased consumables and services							
Traction costs	-2 631	0	0	-1 893	0	41	-4 483
Payment for the use of the railway route	-1 398	0	0	-2 555	-16	-30	-3 999
Other purchased consumables and services	-6 205	-278	-689	-4 043	-2 481	4 708	-8 988
	-10 234	**-278**	**-689**	**-8 491**	**-2 497**	**4 719**	**-17 470**
Staff costs							
Payroll costs	-5 347	-3 379	-241	-3 357	-1 274	494	-13 104
Social security and health insurance	-1 712	-1 091	-73	-1 082	-398	83	-4 273
Statutory social costs	-35	-47	-2	-201	-41	-394	-720
Statutory social costs - benefits arising from the collective agreement	-232	-149	-7	-8	-25	177	-244
	-7 326	**-4 666**	**-323**	**-4 648**	**-1 738**	**360**	**-18 341**
Other operating income and expenses	1 164	-28	1 088	27	3 196	-2 867	2 580
Intracompany income and expenses	-154	-18	203	0	-31	0	0
Overhead costs – operating	-895	-264	-63	0	1 222	0	0
Depreciation and amortisation							-5
	-1 692	-34	-220	-1 111	-416	-2 204	677
Other income and expenses	238	-4	6	-302	278	-142	74
Overhead costs – financial and other	145	46	12	0	-203	0	0
Profit (loss) for the period from continuing operations	**-8**	**0**	**17**	**-427**	**-183**	**-437**	**-1 038**
Profit (loss) for the period from discontinued operations	0	0	0	0	307	-209	98
Profit (loss) for the period	**-8**	**0**	**17**	**-427**	**124**	**-646**	**-940**
Profit (loss) attributable to non-controlling interests	0	0	0	0	0	2	2
Profit (loss) attributable to owners of the parent company	-8	0	17	-427	124	-648	-942

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

(CZK million)

2009	Passenger transportation	Management of operations	Administration of assets	Freight transportation	Other	Elimination and reconciliation *)	Total
Revenue from principal operations							
Revenue from passenger transportation	6 525	0	0	0	0	100	6 625
Revenue from securing railway routes	0	5 320	0	0	0	0	5 320
Payments from orderers	12 360	0	0	0	0	0	12 360
Other	102	66	3	13 244	33	-637	12 811
	18 987	**5 386**	**3**	**13 244**	**33**	**-537**	**37 116**
Purchased consumables and services							
Traction costs	-2 710	0	0	-1 639	0	75	-4 274
Payment for the use of the railway route	-1 419	0	0	-2 561	0	-48	-4 028
Other purchased consumables and services	-6 053	-314	-586	-3 498	-2 728	4 757	-8 422
	-10 182	**-314**	**-586**	**-7 698**	**-2 728**	**4 784**	**-16 724**
Staff costs							
Payroll costs	-5 603	-3 485	-242	-3 562	-1 386	616	-13 662
Social security and health insurance	-1 791	-1 118	-79	-1 090	-421	110	-4 389
Statutory social costs	-36	-36	-3	-210	-46	-380	-711
Statutory social costs - benefits arising from the collective						153	
agreement	-226	-144	-8	-5	-21		-251
	-7 656	**-4 783**	**-332**	**-4 867**	**-1 874**	**499**	**-19 013**
Other operating income and expenses	989	-5	880	414	3 897	-3 569	2 606
Intracompany income and expenses	-110	-58	191	0	-23	0	0
Overhead costs – operating	-962	-272	-54	0	1 288	0	0
Depreciation and amortisation	-1 792	-13	-219	-1 076	-569	-3 033	-6 702
Other income and expenses	25	-3	22	-445	-151	607	55
Overhead costs – financial and other	-145	-48	-12	0	205	0	0
Profit (loss) for the period from continuing operations	**-846**	**-110**	**-107**	**-428**	**78**	**-1 249**	**-2 662**
Profit (loss) for the period from discontinued operations	0	0	0		13	82	95
Profit (loss) for the period	**-846**	**-110**	**-107**	**-428**	**91**	**-1 167**	**-2 567**
Profit (loss) attributable to non-controlling interests	0	0	0	0	0	49	49
Profit (loss) attributable to owners of the parent company	-846	-110	-107	-428	91	-1 216	-2 616

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

14.3 Information on Principal Customers

The Parent Company was formed pursuant to, and its operations are governed by, general legal regulations governing joint stock companies and the Transformation Act (Act No. 77/2002 Coll.). The Transformation Act, inter alia, sets out the scope of the Company's assets and its role in operating railway routes and rendering transportation services in the public interest.

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation from the orderer (the State) is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. On 2 December 2009, the Parent Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

At the financial statements date, the Parent Company entered into contracts for public service commitments with all regions, or signed amendments to the existing contracts. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of ten years or more, ie before 3 December 2009. Similarly as the contract with the State, they are governed by legal regulations that were in effect before the Regulation entered into effect.

A significant change in funding the regional transportation related to the fact that the regions and the State agreed on the additional funding of the regional railway transportation for 2009 in the total amount of CZK 3.2 billion. Before Governmental Resolution No. 686/2009 dated 1 June 2009 was adopted, the ordered regional railway transportation was not additionally funded in that approximate amount. Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years.

ČD Cargo, a.s. provides its services to a significant number of business partners. The most important local customers in terms of the sales volume include AWT SPEDI-TRANS, s.r.o., ČEZ, a.s., CARBOSPED, spol. s r.o., MORAVIA STEEL a.s., NH TRANS SE, ČD Logistics a.s. Principal foreign customers are A.P. Möller, AWT Hungary Kft, Gefco SA, ČD generalvertretung GmbH, Express Slovakia "Mezinárodná preprava a.s.", and principal foreign railway customers are DB Schenker Rail Deutschland AG, Železničná spoločnosť Cargo Slovakia, a.s., Rail Cargo Austria AG and PKP Cargo S.A.

15 DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

15.1 Sale of Traťová strojní společnost, a.s. (TSS)

In 2009, the Parent Company decided to sell its equity share in TSS. The sale was made in 2010. The ownership title to the equity interest passed to the buyer, Ostravské opravny strojírny, s.r.o. on 18 August 2010.

The loss of the entity was recognised in discontinued operations in the years ended 31 December 2009 and 2010. The assets and liabilities of TSS that were classified as held for sale in 2009 were removed from the assets and liabilities held for sale as of the sale date.

15.2 Analysis of the Result and Cash Flows from Discontinued Operations

The following table shows the profit from discontinued operations. It is composed of the profit or loss of TSS before the sale date, the gain from the sale and the discount from the purchase price upon the transfer of part of the Company's business to SŽDC in 2008. The discount relates to asset items the ownership title of which was not transferred to SŽDC.

(CZK '000)

	2010	2009
Profit or loss of TSS		
– *Income*	*473 681*	*908 469*
– *Expenses*	*-494 974*	*-792 155*
– *Loss before tax*	*-21293*	*116 314*
– *Relevant income tax recognised in expenses*	*0*	*-20 478*
Gain from the sale of TSS		
– *Received consideration*	*600 400*	*0*
– *Sold net assets*	*-931 602*	*0*
– *Non-controlling interest*	*456 422*	*0*
– *Profit before tax*	*125 220*	
– *Relevant income tax recognised in expenses*	0	0
Other (discount from the purchase price upon the transfer of a business part to SŽDC in 2008)	-5 446	0
Total profit from discontinued operations	**98 481**	**95 836**
Cash flows from operating activities	10 282	149 796
Cash flows from investment activities	582 506	-204 550
– *Payments for property, plant and equipment*	*-17 646*	*-204 313*
– *Payments for intangible assets*	*-699*	*-2 530*
– *Proceeds from disposal of property, plant and equipment*	*600 617*	*1 595*
– *Received interest*	*234*	*698*
Cash flows from financing activities	-11 904	50 401
Net cash flows from discontinued operations	**580 884**	**-4 353**

15.3 Assets Held for Sale

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Intangible assets	0	0	0
Land	40 000	30 680	51 846
Buildings	147 768	57 585	42 428
Assets relating to TSS	0	1 261 455	0
Total	**187 768**	**1 349 720**	**94 274**

The following table shows the value of the net assets of TSS held for sale as of 31 December 2009 and the value of the disposal of the net assets of TSS as of 18 August 2010 when the Company lost control over TSS:

		(CZK '000)
	18 Aug 2010	31 Dec 2009
Intangible assets	3 712	3 422
Property, plant and equipment	783 051	741 773
Inventories	54 515	53 917
Trade receivables	333 053	354 966
Cash and cash equivalents	59 682	79 198
Tax receivables	31 272	19 047
Other financial assets	295	145
Other assets	9 080	8 987
Total assets	**1 274 660**	**1 261 455**
Trade payables	145361	81 661
Provisions	12 373	17 150
Short-term bank loans	60 000	70 000
Tax payables	93 735	99 192
Other payables	31 589	40 556
Liabilities related to assets held for sale	**343 058**	**308 559**
Net assets	**931 602**	**952 896**

15.4 Spin-off of the Part of Business – Management of Operations

In 2008, part of the Parent Company's business relating to certain activities securing the operability of railway route operations (securing operability, preparation of the railway timetable and fire brigade activities) was spun-off and transferred to SŽDC. The provision of other services (railway route servicing and organising railway transport under extraordinary circumstances), including the relevant capacities, remained the responsibility of the Parent Company, which delivers the activities to SŽDC, the railway operator, as a contractor.

In February 2011, the Czech Government decided to transfer the remaining activities to SŽDC with effect from 1 July 2011. The part of the Parent Company's business intended for sale includes the Management of Operations and relates to approximately 9,500 employees. In terms of other activities, this business part is not a significant unit, it specifically includes specific inventory (equipment parts), intangible assets (applications used for operations management) and furniture and fixtures of offices. The Parent Company does not monitor assets and liabilities of the segment on an ongoing basis. The list of the assets intended for sale has not been completed as of the balance sheet date.

16 PROPERTY, PLANT AND EQUIPMENT

(CZK '000)

Cost	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Land	6 355 676	29 231	26 959	-57 296	6 300 652	29 489	58 928	-41 415	6 229 798
Structures	17 742 711	684 485	254 397	-173 512	17 999 287	496 408	96 428	-348 205	18 051 062
Individual movable assets	86 513 299	11 440 205	5 272 105	-574 058	92 107 341	9 916 046	4 734 616	32 718	97 321 489
– *Machinery, equipment, and furniture and fixtures*	*4 352 228*	*695 797*	*269 965*	*-346 193*	*4 431 867*	*216 117*	*205 927*	*-372 541*	*4 069 516*
– *Vehicles*	*77 416 933*	*7 862 392*	*4 843 819*	*-227 865*	*80 207 641*	*7 333 084*	*4 351 995*	*312 141*	*83 500 871*
– *Vehicles acquired under finance leases*	*4 567 867*	*2 836 378*	*109 469*	*0*	*7 294 776*	*2 360 169*	*151 980*	*0*	*9 502 965*
– *Other*	*176 271*	*45 638*	*48 852*	*0*	*173 057*	*6 676*	*24 714*	*93 118*	*248 137*
Other assets	*30 335*	*30*	*5 948*	*0*	*24 417*	*25 184*	*558*	*-20 282*	*28 761*
Assets under construction	1 302 469	8 497 723	0	-8 305 795	1 494 397	7 325 133	3 007	-7 146 718	1 669 805
Prepayments	2 065 470	2 159 468	2 272 082	-11 485	1 941 371	3 709 221	2 391 532	0	3 259 060
Total	**114 009 960**	**22 811 142**	**7 831 491**	**-9 122 146**	**119 867 465**	**21 501 481**	**7 285 069**	**-7 523 902**	**126 559 975**

(CZK '000)

Accumulated depreciation	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Structures	7 641 860	467 123	122 069	-33 568	7 953 346	414 158	62 824	-334 083	7 970 597
Individual movable assets	48 457 505	7 660 358	4 855 746	2 954	51 265 071	4 610 971	3 811 358	21 609	52 086 293
– *Machinery, equipment, and furniture and fixtures*	*2 982 040*	*523 936*	*349 598*	*0*	*3 156 378*	*193 184*	*197 600*	*-273 642*	*2 878 320*
– *Vehicles*	*44 890 634*	*5 948 138*	*4 336 591*	*2 954*	*46 505 135*	*3 899 887*	*3 437 946*	*253 702*	*47 220 778*
– *Vehicles acquired under finance leases*	*443 338*	*1 123 241*	*109 469*	*0*	*1 457 110*	*499 663*	*151 403*	*0*	*1 805 370*
– *Other*	*141 493*	*65 043*	*60 088*	*0*	*146 448*	*18 237*	*24 409*	*41 549*	*181 825*
Other assets	23 737	968	5 863	0	18 842	1 181	312	-18 658	1 053
Total	**56 123 102**	**8 128 449**	**4 983 678**	**-30 614**	**59 237 259**	**5 026 310**	**3 874 494**	**-331 132**	**60 057 943**

(CZK '000)

Impairment	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Land	3 277	1 022	0	-485	3 814	3 818	3 815	0	3 817
Structures	46 346	14 087	1 135	-269	59 029	54 877	59 028	0	54 878
Individual movable assets	1 682 615	38 769	428 175	0	1 293 209	138 163	332 867	0	1 098 505
– *Machinery, equipment, and furniture and fixtures*	*1 933*	*238*	*1 933*	*0*	*238*	*171*	*238*	*0*	*171*
– *Vehicles*	*1 680 682*	*38 531*	*426 242*	*0*	*1 292 971*	*137 992*	*332 629*	*0*	*1 098 334*
Total	**1 732 238**	**53 878**	**429 310**	**-754**	**1 356 052**	**196 858**	**395 710**	**0**	**1 157 200**

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 40, IFRS 5), in assets under construction, these include assets put into use.

(CZK '000)

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	6 352 399	6 296 838	6 225 981
Buildings	10 054 505	9 986 912	10 025 587
Individual movable assets	36 373 179	39 549 061	44 136 691
– *Machinery, equipment, and furniture and fixtures*	*1 368 255*	*1 275 251*	1 191 025
– *Vehicles*	*30 845 617*	*32 409 535*	35 181 759
– *Vehicles acquired under finance leases*	*4 124 529*	*5 837 666*	7 697 595
– *Other*	*34 778*	*26 609*	66 312
Other assets	6 598	5 575	27 708
Assets under construction	1 302 469	1 494 397	1 669 805
Prepayments	2 065 470	1 941 371	3 259 060
Total	**56 154 620**	**59 274 154**	**65 344 832**

Principal additions in the years ended 31 December 2009 and 2008 include the acquisition of railway vehicles as part of the renewal of the Parent Company's rolling stock.

In 2010, the Group acquired non-current assets financed through government grants in the amount of CZK 104,914 thousand. The cost of the assets was reduced by the amount of the grant.

16.1 Impairment Losses Recognised in the Reporting Period

Vehicles predominantly include railway vehicles (locomotives, wagons, other railway vehicles) used for operating railway transportation. Pursuant to the inventory count and analyses, items of assets were identified for which there is a significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell. The principal impairment loss as of 31 December 2010, 2009 and 2008 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 960,342 thousand, CZK 1,154,680 thousand and CZK 1,433,000 thousand, respectively.

Impairment losses are included in other operating expenses in the income statement.

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	30 – 50
Structures	20 – 50
Locomotives	20 – 30
Passenger coaches	20 - 30
Wagons	25 – 33
Machinery and equipment	8 – 20
Optical fibres	35

16.2 Assets Pledged as Collateral

The Parent Company holds assets at the net book value of CZK 3,595,799 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 2,502,260 thousand, the Ampz passenger coaches amounted to CZK 461,643 thousand and the Bmz passenger coaches amounted to CZK 631,896 thousand. The pledge was established in favour of EUROFIMA.

17 INVESTMENT PROPERTY

Set out below is an analysis of investment property:

(CZK '000)

	2010	2009
Balance at the beginning of the year	2 204 523	2 271 001
Additions from subsequent capitalised expenses	99 823	13 530
Disposals	-13 416	0
Disposals, annual depreciation	-68 763	-44 297
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	448 124	3 177
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-468 968	-47
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-93 979	-38 849
Change in the value	-239	8
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-6 665	0
Balance at the end of the year	**2 100 440**	**2 204 523**

(CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Cost	2 936 323	2 893 707	3 153 314
Accumulated depreciation	-663 580	-687 449	-1 049 795
Impairment	-1 742	-1 735	-3 079
Net book value	**2 271 001**	**2 204 523**	**2 100 440**

The Group includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Parent Company used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2010, 2009 and 2008 is CZK 3,493,240 thousand, CZK 3,168,633 thousand and CZK 3,195,526 thousand, respectively.

The Parent Company determines the depreciation method and useful lives of investment property on the same basis as for property included in property, plant and equipment.

18 INTANGIBLE ASSETS

(CZK '000)

Cost	Balance at 31 Dec 2008	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2009	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2010
Development costs	104 038	0	166	0	103 872	0	7 615	0	96 257
Software	1 714 753	68 383	85 598	-170 554	1 526 984	198 361	135 618	-81 513	1 508 214
Valuable rights	217 183	95 000	8 327	168 664	472 520	55 077	607	40 738	567 728
Other assets	2 223	241	0	-440	2 024	525	1 191	0	1 358
Assets under construction	114 384	301 042	0	- 231 634	183 792	206 845	0	-227 216	163 421
Prepayments	7 224	16644	23868	0	0	170	170	0	0
Total	**2 159 805**	**481 310**	**117 959**	**- 233 964**	**2 289 192**	**460 978**	**145 201**	**-267 991**	**2 336 978**

(CZK '000)

Accumulated amortisation	Balance at 31 Dec 2008	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2009	Additions	Disposals	Reclassi fication	Balance at 31 Dec 2010
Development costs	102 427	565	166	0	102 826	525	7 614	0	95 737
Software	1 032 481	257 981	51 384	-28 251	1 210 827	242 169	135 106	-24 716	1 293 174
Valuable rights	184 442	39 543	7 706	28 251	244 530	70 566	126	24 716	339 686
Other assets	1 593	292	0	0	1 885	150	1 192	0	843
Assets under construction	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0
Total	**1 320 943**	**298 381**	**59 257**	**0**	**1 560 068**	**313 410**	**144 038**	**0**	**1 729 440**

(CZK '000)

Impairment	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Software	38 468	0	38 468	0	0	0	0	0	0
Total	**38 468**	**0**	**38 468**	**0**	**0**	**0**	**0**	**0**	**0**

(CZK '000)

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Development costs	1 611	1 046	520
Software	643 804	316 157	215 040
Valuable rights	32 741	227 990	228 042
Other assets	630	139	515
Assets under construction	114 384	183 792	163 421
Prepayments	7 224	0	0
Total	**800 394**	**729 124**	**607 538**

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

Intangible fixed assets include software ARES, In-card, UNIPOK, IS OPT, ISOŘ and items related to the SAP R/3 accounting software and its modules.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure relating to the SAP R/3, ISOŘ, IS-PRM, IS-ADPV, In-cards, and IS-KADR software modules.

19 INVESTMENTS IN ASSOCIATES

Name of the entity	Value of investment as of 31 Dec 2010	Value of investment as of 31 Dec 2009	Value of investment as of 31 Dec 2008	Principal activity	Ownership percentage
JLV, a. s.	116 946	115 367	115 885	Catering services	38.79%

Summary of financial information on JLV, a. s.:

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total assets	377 882	367 092	352 454
Total liabilities	76 396	69 678	53 705
Net assets	301 486	297 414	298 749
Share of the Company in associates' net assets	**116 946**	**115 367**	**115 885**

(CZK '000)

	2010	2009
Total income	326 951	357 632
Profit for the period	11 214	11 150
Share of the Company in associates' profit for the period	**4 350**	**4 325**

20 INVENTORIES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Spare parts for machinery and equipment	75 815	79 089	301 972
Spare parts and other components for rail vehicles and locomotives	739 905	693 673	312 968
Other machinery, tools and equipment and their spare parts	164 901	199 094	299 610
Fuels, lubricants and other oil products	25 116	26 081	30 373
Work clothes, work shoes, protective devices	252 377	235 203	239 936
Other	125 197	117 020	155 645
Total cost	**1 383 311**	**1 350 160**	**1 340 504**
Write-down of inventories to their net realisable value	-52 731	-70 424	-66 667
Total net book value	**1 330 580**	**1 279 736**	**1 273 837**

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

21 TRADE RECEIVABLES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Long-term	10 098	24 181	2 153
Short-term	3 484 872	3 760 040	5 264 167
Total	**3 494 970**	**3 784 221**	**5 266 320**

21.1 Aging of Trade Receivables

(CZK '000)

	Category	Before due date	1 - 30 days	31 - 90	91 - 180	Past due date (days) 181 - 365	365 and more	Total past due date	Total
31 Dec 2010	Gross	3 168 138	148 889	58 959	14 379	33 097	212 642	467 966	3 636 104
	Allowances	-3 097	0	-1 797	-959	-7 891	-127 390	-138 037	-141 134
	Net	**3 165 041**	**148 889**	**57 162**	**13 420**	**25 206**	**85 252**	**329 929**	**3 494 970**
31 Dec 2009	Gross	3 447 465	137 523	54 458	68 286	66 373	183 730	510 370	3 957 835
	Allowances	-611	-38	-30 276	-12 716	-28 943	-101 030	-173 003	-173 614
	Net	**3 446 854**	**137 485**	**24 182**	**55 570**	**37 430**	**82 700**	**337 367**	**3 784 221**
31 Dec 2008	Gross	4 962 941	158 942	61 022	54 650	76 268	73 588	424 470	5 387 411
	Allowances	-594	0	-26	-8 283	-45 589	-66 599	-120 497	-121 091
	Net	**4 962 347**	**158 942**	**60 996**	**46 367**	**30 679**	**6 989**	**303 973**	**5 266 320**

Receivables which are past their due dates by more than 181 days and are not provisioned consist primarily of receivables of ČD Cargo, a. s. from foreign railway companies which are not treated as distressed receivables.

21.2 Movements in Allowances for Doubtful Receivables

(CZK '000)

	2010	2009
Balance at the beginning of the year	173 614	121 091
Recognition of allowances	309 306	125 390
Use of allowances	-341 786	-72 867
Balance at the end of the year	**141 134**	**173 614**

22 OTHER FINANCIAL ASSETS

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Financial assets available for sale	406 509	376 217	381 150
Receivables from finance leases	120 713	114 149	117 615
Hedging derivatives	42 793	0	0
Other	56 556	26 177	35 641
Total non-current financial assets	**626 571**	**516 543**	**534 406**
Receivables from finance leases	-6 658	3 466	193
Hedging derivatives	15 497	0	0
Other	218 718	83 911	71 068
Total current financial assets	**227 557**	**87 377**	**71 261**
Total	**854 128**	**603 920**	**605 667**

22.1 Receivables from Finance Leases

The Parent Company has leased the station buildings at the Brno - hlavní nádraží and Prague – Dejvice stations under finance leases.

(CZK '000)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2010	31 Dec 2009	31 Dec 2008
Under 1 year	3 707	13 921	10 868	-6 658	3 466	193
From 1 to 5 years	24 823	14 561	18 011	-25 137	- 32 551	-26 366
5 years and more	456 402	470 331	480 803	145 850	146 700	143 981
Total	**484 932**	**498 813**	**509 682**	**114 055**	**117 615**	**117 808**
Less: unrealised financial income	-370 877	-381 198	-391 874			
Present value of receivables of minimum lease payments	**114 055**	**117 615**	**117 808**	**114 055**	**117 615**	**117 808**
In the statement of financial position as:						
– Other current financial assets				*-6 658*	*3 466*	*193*
– Other non-current financial assets				*120 713*	*114 149*	*117 615*
Total				**114 055**	**117 615**	**117 808**

The fair value of receivables from finance leases approximates their carrying amount. Negative values in certain lines of the table indicate that lease payments in the period are lower than unrealised financial income, hence the present value of the minimum lease payments increases in this period.

23 OTHER ASSETS

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total non-current assets	**184 529**	**232 827**	**46 331**
Prepayments made	195 513	205 545	147 760
Tax receivables (except for the corporate income tax)	362 518	308 089	424 500
Prepaid expenses	152 496	120 172	109 663
Other	74 064	102 948	314 079
Total current assets	**784 591**	**736 754**	**996 002**
Total	**969 120**	**969 581**	**1 042 333**

24 EQUITY

24.1 Share Capital

The Parent Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

24.2 Reserve and Other Funds

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Share premium	16 439 605	16 439 853	16 439 853
Statutory reserve fund	182 030	184 523	33 343
Cash flow hedging reserve	-51 533	-604 780	-1 009 465
Other	571	1 046	3 057
Non-controlling interests	-3 043	-12 556	-10 121
Total	**16 567 630**	**16 008 086**	**15 456 667**

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

24.2.1 Cash Flow Hedging Reserve

(CZK '000)

	2010	2009
Balance at the beginning of the year	-604 780	-1 009 465
Profit from revaluation	264 472	116 552
Accrual of the cost	9 127	-60 829
Reclassifications to profit or loss upon settlement	386 878	463 258

Total change in the cash flow hedging reserve	**660 477**	**518 981**
Relating income tax	-107 230	-114 296
Balance at the year-end	**-51 533**	**-604 780**

The cash flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated accrued profit or loss from hedging derivatives is reclassified to the profit or loss only if the hedging transaction impacts the profit or loss or is included as an adjustment to the base in the hedged non-financial item in accordance with relevant accounting principles.

Gains and losses reclassified during the year from equity are included under 'Other gains' in the income statement.

25 LOANS AND BORROWINGS

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Short-term bank loans	256 798	271 195	275 960
Short-term issued bills of exchange	2 877 117	1 013 500	0
Payables from finance leases	767 719	668 295	520 517
Overdraft accounts	2 136 140	32 783	1 648 758
Other received short-term loans and borrowings	6 792	0	0
Total short-term	**6 044 566**	**1 985 773**	**2 445 235**
Payable to EUROFIMA	4 134 850	4 366 672	4 443 396
Issued bonds	1 982 412	1 970 899	0
Other – received loans and borrowings – long-term	13 522	17 541	0
Loan from ČSOB – long-term	770 392	1 084 780	1 379 800
Payables from finance leases	5 565 909	4 242 098	3 236 217
Total long-term	**12 467 085**	**11 681 990**	**9 059 413**
Total	**18 511 651**	**13 667 763**	**11 504 648**

In the financial statements for the year ended 31 December 2009, the Group incorrectly presented short-term bills of exchange of CZK 1,013,500 thousand as long-term bills of exchange. For this reason, the comparative information as of 31 December 2009 was adjusted, short-term loans and borrowings are increased by the stated amount and long-term loans and borrowings are decreased by the stated amount.
Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

In 2004, the Parent Company received a long-term loan from EUROFIMA to finance the purchase of railway vehicles. This loan was increased in the year ended 31 December 2006 by EUR 30 million and by another EUR 30 million in the year ended 31 December 2007. This loan is collateralised by a state guarantee and its interest rate is determined based on the Pribor/Euribor reference rate plus a usual market markup. The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2010 and 2009 was CZK 10,255 thousand and CZK 23,399 thousand, respectively. The maturity of the loan is 10 years for each individual tranche.

The Parent Company issued bonds with three-year maturity and fixed coupon of 5% p.a., repayable annually, on 14 December 2009. The issue amounted to CZK 2 billion. The issue was not listed and was intended for private investors. The principal manager of the issue was ČSOB. The issue rate as of the issue date was 98.38%.

The Parent Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium include Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The loan has been provided to finance the renovation of the Parent Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. The interest rate of the loan is determined based on the Pribor/Euribor reference rates plus a usual market markup. The Parent Company makes repayments on a semi-annual basis on 25 May and 25 November each year. The final maturity date of the loan is 25 November 2014.

The subsidiary DPOV Přerov, a. s. obtained a long-term investment loan provided by KB, a. s. Přerov. As of 31 December 2010, CZK 20,315 thousand (2009: CZK 17,541 thousand) was drawn. The loan was collateralised by a Letter of Comfort from the Parent Company.

In the year ended 31 December 2008, the subsidiary ČD-Telematika a.s. obtained a long-term loan for the financing of the purchase of software licences. The provider of the loan is ČSOB leasing. The contract was discontinued as of 28 December 2009, the overpayment was refunded in February 2010.

On 13 July, the subsidiary ČD Cargo, a.s. started to issue debt bills of exchange. As of 31 December 2010, the total volume of these transactions amounted to CZK 813,117 thousand with the maturity in November 2011 (2009: CZK 1,013,500 thousand with the maturity of 6 months). As of 31 December 2009 and 2010, the company used no long-term loans. The balance of short-term loans as of 31 December 2010 is CZK 1,412,257 thousand (2009: CZK 32,783 thousand).

The Group breached no loan covenants in the reporting period.

25.1 Finance Lease Payables

The finance lease applies to railway vehicles, software, vehicles and equipment for computers and servers. The value of finance leases is as follows:

(CZK '000)

	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2010	31 Dec 2009	31 Dec 2008
Less than 1 year	969 759	850 676	660 173	767 719	668 295	520 517
From 1 to 5 years	3 819 478	3 102 410	2 548 501	3 129 026	2 644 994	2 271 067
5 years and more	2 719 499	1 751 924	1 020 360	2 436 883	1 597 104	965 150
Total	**7 508 736**	**5 705 010**	**4 229 034**	**6 333 628**	**4 910 393**	**3 756 734**
Less future finance expenses	-1 175 109	-794 617	-472 300			
Present value of minimum lease payments	**6 333 627**	**4 910 393**	**3 756 734**	**6 333 628**	**4 910 393**	**3 756 734**
In the statement of financial position as:						
– short-term loans				*767 719*	*668 295*	*520 517*
– long-term loans				*5 565 909*	*4 242 098*	*3 236 217*
Total				**6 333 628**	**4 910 393**	**3 756 734**

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

26 PROVISIONS

(CZK '000)

	Balance at 31 Dec 2008	Charge	Use	Balance at 31 Dec 2009	Charge	Use	Balance at 31 Dec 2010
Provision for discounts and refunds	20 100	9 752	20 100	9 752	22 165	9 752	22 165
Provision for rents	10 818	15 220	15 385	10 653	11 223	10 653	11 223
Provision for legal disputes	33 585	35 734	33 585	35 734	283 199	35 734	283 199
Provision for outstanding vacation days	120 640	77 294	120 640	77 294	75 542	77 294	75 542
Provision for removal of the environmental burden	0	226 737	0	226 737	0	3 034	223 703
Provisions for employees bonuses	568 202	211 767	231 188	548 781	110 352	164 373	494 760
Other provisions	19 592	2 267	19 592	2 267	736	2 266	737
Provisions for business risks	0	0	0	0	240 000	0	240 000
Total provisions	**772 937**	**578 771**	**440 490**	**911 218**	**743 217**	**303 106**	**1 351 329**
– long-term	*370 644*			*573 437*			*537 467*
– short-term	*402 293*			*337 781*			*813 862*

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 5%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office.

A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the income statement. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

In the first half of 2009, the Parent Company evaluated the results of the environmental audit performed in selected localities. The audit highlighted the need to provide the clean-up of the areas in Brodek u Přerova between 2010 and 2012. The budget of the clean-up is CZK 223,703 thousand (2009: CZK 226,737 thousand) and is planned to take three years. The funding of CZK 182,117 thousand (2009: CZK 180,962 thousand) will be provided from the Environmental Operational Programme in the form of an EU subsidy – Cohesion Fund and CZK 10,713 thousand (2009: CZK 10,645 thousand) will be provided from the Czech state budget, Chapter 15. A provision was recognised in respect of these aggregate costs in the consolidated financial statements for the year ended 31 December 2009; the claim for the subsidy is reported under 'Other non-current assets'.

27 TRADE PAYABLES

(CZK '000)

Year	Category	Before due date	0 – 30	31 – 90	91–180	Past due date (days) 181-365	365 and more	Total past due date	Total
31 Dec 2010	Short-term	7 589 620	479 437	35 527	15 276	6 719	6 938	543 897	**8 133 517**
31 Dec 2009	Short-term	7 731 855	513 877	38 079	6 588	5 978	11 040	575 562	**8 307 417**
31 Dec 2008	Short-term	7 331 805	597 317	44 262	93 462	31 060	19 038	785 139	**8 116 944**

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

Supplier invoices typically mature in 90 days.

28 OTHER FINANCIAL LIABILITIES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Long-term received prepayments	0	163 044	306 107
Financial derivatives	0	376 099	0
Other long-term liabilities	1 219 897	1 561 929	1 317 857
Total long-term	**1 219 897**	**2 101 072**	**1 623 964**
Other	88 862	712	88 177
Financial derivatives	148 452	386 878	1 327 784
Total short-term	**237 314**	**387 590**	**1 415 961**
Total	**1 457 211**	**2 488 662**	**3 039 925**

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

29 OTHER LIABILITIES

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total long-term	**89 957**	**101 260**	**106 876**
Received prepayments	227 343	241 290	248 144
Payables from the transition period (SŽDC-transformation)	435 865	435 865	436 108
Payables to employees	1 613 043	1 595 895	1 662 886
Social security and health insurance payables	509 414	517 245	530 087
Subsidies	1 104	31 098	22 642
Other	1 475 550	1 265 053	735 581
Total short-term	**4 262 319**	**4 086 446**	**3 635 448**
Total	**4 352 276**	**4 187 706**	**3 742 324**

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

30 RELATED PARTY TRANSACTIONS

30.1 Loans to Related Parties

The Group provided no loans to related parties as of 31 December 2010, 31 December 2009 and 31 December 2008.

30.2 Bonuses to Key Management Members

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

(CZK '000)

	2010	2009
Short-term employee benefits	175 764	193 966
Post-employment benefits	1 485	2 225
Other long-term employees benefits	2 137	1 331
Total	**179 386**	**197 522**

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

30.3 Transactions with SŽDC

The Parent Company is wholly owned by the state. In accordance with the exemption listed in paragraphs 25 – 27 of IAS 24 (revised), the Parent Company does not include other state-owned entities among related parties. The table below presents only transactions with SŽDC as a result of SŽDC's significant position in the Parent Company's activities.

In the year ended 31 December 2010, the Parent Company secured the servicing of the railway route on behalf of the operator, SŽDC, s.o. The contract for the servicing of railway routes was entered into in the summer of 2008 and is also applicable with its amendments in 2010.

The Group operates the railway route and it pays a regulated fee to SŽDC for the use of the railway route.

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2010 and 2009 were as follows:

(CZK '000)

2010	Expenses	Income
Servicing railway routes	500	5 194 373
Use of railway route and allocated capacity of the railway route – passenger transportation	1 444 051	0
Use of railway route and allocated capacity of the railway route – freight transportation	2 555 241	0
Consumed traction electricity	955 465	0
Other	302 839	72 270
Total	**5 258 096**	**5 266 643**

(CZK '000)

2009	Expenses	Income
Servicing railway routes	0	5 320 200
Use of railway route and allocated capacity of the railway route – passenger transportation	1 467 762	0
Use of railway route and allocated capacity of the railway route – freight transportation	2 560 443	0
Consumed traction electricity	2 614 384	0
Other	192 298	31 979
Total	**6 834 887**	**5 352 179**

Income from securing railway routes is reported under 'Revenue from principal operations'. The costs of using railway routes, the allocated capacity of the railway route and consumed electricity are reported under 'Purchased consumables and services'.

Given the above activities, the Group records receivables from and payables to SŽDC. The total amount of receivables reported in the line 'Trade receivables' is CZK 562,057 thousand as of 31 December 2010 (CZK 464,466 thousand as of 31 December 2009 and CZK 923,023 thousand as of 31 December 2008). The total amount of payables reported in the line 'Trade payables' is CZK 1,530,124 thousand as of 31 December 2010 (CZK 2,177,282 thousand as of 31 December 2009 and CZK 2,150,767 thousand as of 31 December 2008).

In addition, the Group reports an estimated payable in the line 'Trade payables' arising from unbilled supplies from SŽDC in the amount of CZK 27,018 thousand as of 31 December 2009 (CZK 27,003 thousand as of 31 December 2009 and CZK 120,008 thousand as of 31 December 2008). The estimated receivable arising from the billing of securing railway routes reported in the line 'Trade receivables' amounted to CZK 11,172 thousand as of 31 December 2010 (CZK 8,053 thousand as of 31 December 2009 and CZK 78,354 thousand as of 31 December 2008).

31 CASH AND CASH EQUIVALENTS

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash flows statement can be reconciled to the relevant items in the statement of financial position as follows:

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Cash on hand and cash in transit	55 692	53 390	43 720
Cash at bank	433 569	1 080 006	749 605
Depository bills of exchange	230 200	1 200 000	4 012 508
Total	**719 461**	**2 333 396**	**4 805 833**

32 CONTRACTS FOR OPERATING LEASES

32.1 The Group as a Lessee

Assets under operating leases which are reported off balance sheet as of 31 December 2010, 31 December 2009 and 31 December 2008 amount to CZK 207,139 thousand, CZK 105,161 thousand and CZK 31,396 thousand, respectively. Assets include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the years ended 31 December 2010 and 2009 amounted to CZK 85,992 thousand and CZK 106,654 thousand, respectively.
The Group as a lessee has not concluded any irrevocable lease contracts, contingent lease contracts or onerous contracts.

32.2 The Group as a Lessor

Operating leases applies to investment property held by the Group with various lease periods.

Revenue from the lease of property that the Company acquired in 2010 from investment property based on the operating leases amounts to CZK 569,557 thousand (2009: CZK 570,922 thousand).

Direct operating expenses relating to investment property for the period amounted to CZK 211,573 thousand (2009: CZK 189,655 thousand).

Income from operating leases of movable assets in 2010 amounts to CZK 95,911 thousand (2009: CZK 72,597 thousand).

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

33 CONTRACTUAL OBLIGATIONS RELATING TO EXPENSES

As of the consolidated balance sheet date, the Group concluded contracts for the purchase of land, buildings and equipment and investment property in the amount of CZK 17,542,132 thousand, of which CZK 5,779,941 thousand relates to supplies contracted for 2011 and CZK 7,651,121 thousand relates to supplies contracted for the following years. The remaining CZK 4,111,070 thousand was paid as of 31 December 2010. A significant portion of the obligations relating to expenses (CZK 17,066,050 thousand) include investments in railway vehicles.

34 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the year ended 31 December 2010, two bank guarantees were renewed for the appropriate performance of the Contract for the Public Services in Railway Transport in the Public Interest to Provide for Transportation Needs of the State on the:

- Pardubice – Liberec railway track, in respect of the contract entitled "Ordered Transportation between Pardubice and Liberec", CZK 15 million, maturity on 10 December 2011; and

- Plzeň – Most railway track, in respect of the contract entitled "Ordered Transportation between Plzeň and Most", maturity on 10 December 2011, CZK 15 million.

The Parent Company holds a 1% equity investment in EUROFIMA. Shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for funding of railway vehicles purchases. According to Article 5 of the Articles of Association, shareholders pay to EUROFIMA only 20% of the equity investment value and the remaining 80 % can be required by EUROFIMA as needed pursuant to the resolution of the Board of Directors according to Point 6, Article 21, of the Articles of Association. The nominal value of unpaid shares as of 31 December 2010 was CHF 20,800 thousand (CZK 416,894 thousand) The likelihood that the Parent Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Parent Company's management.

ČD Cargo reports three bank guarantees in favour of WestInvest Waterfront Towers s.r.o. for the compliance with all liabilities and obligations of a lessee resulting from the lease contract with WestInvest Waterfront Towers s.r.o. – Lighthouse in the amount of EUR 207 thousand, EUR 3,780 and EUR 577. The guarantees are valid until 25 February 2011, 25 February 2011 and 27 January 2011, respectively.

In addition, ČD Cargo reports a bank guarantee in favour of HYPARKOS, s.r.o. which is held to cover the situation where ČD Cargo would not comply with the obligations stipulated in the Contract for the Lease of Buildings and Land in the Lovosice Logistics Centre. The guarantee amounts to CZK 16,517 thousand and is valid until 8 July 2011.

35 FINANCIAL INSTRUMENTS

35.1 Capital Risk Management

The Group manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance. The Board of Directors and the Supervisory Board of the Parent Company are regularly informed about the development of debt. Any additional debt is subject to approval by the Parent Company's statutory bodies, ie the Board of Directors and the Supervisory Board.

The Group is not subject to any externally imposed capital requirements.

In 2010, the Group reported a significant increase in the short-term debt. The short-term debt predominantly includes funds acquired from the issue of short-term bills of exchange, predominantly outside the subscription obligation, which shows the willingness of investors to provide the Group with funding. The issued bills of exchange are used primarily for liquidity management when the Group plans to issue bonds to cover long-term investments as part of its financial strategy. The bills of exchange will be subsequently refinanced using long-term funds which will provide for both the optimal management of cash and long-term stability.

35.2 Significant Accounting Policies

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Note 2.

35.3 Categories of Financial Instruments

(CZK '000)

Financial assets	31 Dec 2010	31 Dec 2009	31 Dec 2008
Cash and bank accounts	489 261	1 133 396	793 325
Derivative instruments in designated hedge accounting relationships	58 290	0	0
Held-to-maturity investments (term deposits and bills of exchange)	230 200	1 200 000	4 012 508
Loans and receivables	3 884 299	4 011 924	5 490 837
Available-for-sale financial assets	406 509	376 217	381 150
Total	**5 068 559**	**6 721 537**	**10 677 820**

(CZK '000)

Financial liabilities	31 Dec 2010	31 Dec 2009	31 Dec 2008
Derivative instruments in designated hedge accounting relationships	118 605	671 543	1 251 356
Other financial derivative instruments	29 847	91 433	76 428
Measured at amortised cost	27 953 927	23 700 866	21 333 733
Total	**28 102 379**	**24 463 842**	**22 661 517**

Available-for-sale financial assets include investments in equity investments that do not have listed market values on an active market and are measured at cost as their fair value cannot be reliably determined.

Income from individual categories of financial assets is as follows:

(CZK '000)

Financial assets	2010	2009	Reported in the income statement line
Interest on cash in bank accounts	4 821	9 451	Other gains
Interest on investments held to maturity (term deposits and bills of exchange)	2 879	19 399	Other gains
Dividends from available-for-sale financial assets	33 563	38 859	Other gains
Total	**41 263**	**67 709**	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No impairment was noted in respect of any other class of financial assets.

35.4 Financial Risk Management Objectives

The Group's Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

35.5 Currency Risk Management

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation and received loans. The Group seeks to maintain the proportion of long-term loans and borrowings in the foreign currency at the maximum level of 50%.

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

(CZK '000)

31 Dec 2010	EUR	USD	Other	Total
Financial assets	1 741 361	4 443	1 566	1 747 370
Financial liabilities	-6 468 221	-14 705	-2 198	-6 485 124
Total	**-4 726 860**	**-10 262**	**-632**	**-4 737 754**

(CZK '000)

31 Dec 2009	EUR	USD	Other	Total
Financial assets	1 713 910	6 875	1 657	1 722 442
Financial liabilities	-7 119 759	-6 810	-694	-7 127 263
Total	**-5 405 849**	**65**	**963**	**-5 404 821**

(CZK '000)

31 Dec 2008	EUR	USD	Other	Total
Financial assets	972 532	666	16 991	990 189
Financial liabilities	-7 062 112	-1	-4 868	-7 066 981
Total	**-6 089 580**	**665**	**12 123**	**-6 076 792**

35.5.1 Foreign Currency Sensitivity Analysis

The exposure to currency risks is measured by a sensitivity analysis. The Group is exposed to the currency risk due to:

- Changes in the value of unhedged cash items denominated in foreign currencies; and
- Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK '000)

	2010	2009
Translation of unhedged items denominated in foreign currencies at the end of the period	189 225	205 251
Change in the fair value of derivatives at the end of the period	-2 096	0
Total impact on the profit for the period	**187 129**	**205 251**
Change in the fair value of derivatives at the end of the period	-155 698	-288 207
Total impact on other comprehensive income	**-155 698**	**-288 207**

35.5.2 Currency Forwards

To hedge the foreign currency differences in respect of the strengthening of the Czech crown, ČD Cargo, a.s. entered into currency option strategies – a combination of purchased put options and sold call options in 2008 and 2009. This hedging was entered into for the period of 39 months until December 2011.

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

(CZK '000)

Sale of EUR	Average currency exchange rate	Foreign currency	Nominal value	Fair value
31 Dec 2010	23.83	EUR	147 000	-187 130
31 Dec 2009	23.83	EUR	294 000	-797 406
31 Dec 2008	23.83	EUR	441 000	-1 290 338

35.6 Interest Rate Risk Management

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

Concurrently, the Group concludes interest rate swap contracts in order to hedge future cash flows resulting from loans and borrowings with variable rates. The hedging is regularly assessed to bring the opinions on the development of interest rates into line with the defined level of acceptable risk. This treatment provides for the application of the economically most effective hedging strategies.

35.6.1 Interest Rate Sensitivity Analysis

The exposure to changes in interest rates is measured by the sensitivity analysis. The Group is exposed to the interest rate risk due to:

- Changes in interest expenses from loans and lease with a variable rate;
- Changes in the present value of long-term provisions resulting from the change in the discount rate; and
- Change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in interest rates of 200 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

(CZK '000)

	2010	2009
Interest from loans and lease with variable rate for the period	-6 224	-7 687
Change in the present value of long-term provisions at the end of the period	39 003	43 670
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**32 779**	**35 983**
Change in the fair value of derivatives at the end of the period	114 286	0
Total impact on other comprehensive income	**114 286**	**0**

35.6.2 Interest Rate Swaps

Based on interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to eliminate the risk of changing cash flows on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period. As of 31 December 2009 and 2008, the Group concluded no interest rate swap contracts.

31 December 2010	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	2.43%	EUR 60 mil.	0
1 to 5 years	2.43%	EUR 60 mil.	17 564
5 years and more	2.43%	EUR 60 mil.	17 397
Total			**34 961**

The Group settles the difference between the fixed and variable interest rates on a net basis. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the variable interest rates on debt affect the profit or loss.

35.7 Commodity Risk Management

The Group is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Group. The Group manages this risk using the combination of several instruments as follows:

- Conclusion of mid-term derivatives for oil purchase;

- In the event of an increase in the price of the commodities listed above of more than 10% the Group has the possibility of asking the regions and the state for increased payments for transportation; and

- Negotiating a fixed price of electricity from the relevant supplier always for the following calendar year.

35.7.1 Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Group is exposed to the risk of changes in prices of commodities due to:

- Change in the fair value of concluded financial derivatives; and
- Changes in prices of purchases of unhedged use of commodities.

The following table shows the impact that an increase in the oil price of 10% would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

(CZK '000)

	2010	2009
Costs of oil consumption for the period	-158 893	-188 926
Change in the fair value of derivatives at the end of the period	-9 268	3 237
Total impact on the profit for the period	**-168 161**	**-185 689**
Change in the fair value of derivatives at the end of the period	37 167	25 118
Total impact on other comprehensive income	**37 167**	**25 118**

35.7.2 Commodity Derivatives

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

(CZK '000)

Purchase of oil	Hedged range (CZK/mt)	Volume of contracts (mt)	Fair value (CZK thousand)
31 Dec 2010	550 – 820	22 807	61 802
31 Dec 2009	550 – 700	30 288	34 430
31 Dec 2008	550 – 700	45 432	-37 446

35.8 Credit Risk Management

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

The concentration of the Parent Company's credit risk is low as a significant portion of the Parent Company's revenues (passenger transportation fare) is collected in cash. In other transactions, the Group seeks to deal only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The maximum unhedged exposure to one counterparty is determined at CZK 50 million. The Group's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required).

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

35.9 Liquidity Risk Management

The ultimate responsibility for liquidity risk management rests with the Board of Directors of the Parent Company which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Parent Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Group's short-term liabilities significantly exceed its short-term assets as of 31 December 2009. The predominant reason relates to the urgent necessity for capital expenditure and the use of easily available short-term funds for this purpose. The Group believes that it is able to manage this situation in the short-term through managing relationships with its suppliers and using all available short-term funds. In the mid-term financial plan, the Group anticipates increasing its long-term funds.

35.9.1 Liquidity and Interest Rate Risk Tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change if interest rates differ from the estimates. The contractual maturity is based on the earliest date on which the Group may be required to pay.

(CZK '000)

31 Dec 2010	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 244 923	3 999 209	1 157 347	1 012 514	28 285	9 442 278
Derivatives	42 094	25 193	80 987	178	0	148 452
Finance lease liabilities	78 670	159 051	732 038	3 819 478	2 719 499	7 508 736
Variable interest rate instruments	1 414 280	14 978	1 059 822	3 641 756	1 523 590	7 654 426
Fixed interest rate instruments	50 613	2 215 263	723 429	2 091 381	0	5 080 686
Total	**4 830 580**	**6 413 694**	**3 753 623**	**10 565 307**	**4 271 374**	**29 834 578**

(CZK '000)

31 Dec 2009	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	2 876 800	3 908 674	1 502 852	1 278 523	22 030	9 588 879
Derivatives	32 732	65 318	288 828	376 099	0	762 977
Finance lease liabilities	72 356	142 764	635 556	3 102 410	1 751 924	5 705 010
Variable interest rate instruments	35 406	90 673	357 260	2 970 431	2 826 139	6 279 909
Fixed interest rate instruments	50 000	350 000	713 500	2 165 968	0	3 279 468
Total	**3 067 294**	**4 557 429**	**3 497 996**	**9 893 431**	**4 600 093**	**25 616 243**

(CZK '000)

31 Dec 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 353 502	3 446 206	1 270 951	1 156 406	29 016	9 256 081
Derivatives	40 716	79 638	342 903	864 527	0	1 327 784
Finance lease liabilities	56 806	112 846	490 521	2 548 501	1 020 360	4 229 034
Variable interest rate instruments	1 638 568	90 661	450 793	1 808 324	4 411 095	8 399 441
Fixed interest rate instruments	0	0	0	0	0	0
Total	**5 089 592**	**3 729 351**	**2 555 168**	**6 377 758**	**5 460 471**	**23 212 340**

The following tables present the Group's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

(CZK '000)

31 Dec 2010	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 977 371	1 848 746	463 550	9 300	348 644	4 647 611
Derivatives	3 064	1 501	10 932	25 396	17 397	58 290
Finance lease assets	3 550	0	157	24 823	456 402	484 932
Fixed interest rate instruments	81 000	149 200	0	0	18 401	248 601
Total	**2 064 985**	**1 999 447**	**474 639**	**59 519**	**840 844**	**5 439 434**

(CZK '000)

31 Dec 2009	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 077 378	1 214 441	426 943	33 704	307 774	5 060 240
Finance lease assets	3 503	0	10 418	14 561	470 331	498 813
Fixed interest rate instruments	461 623	801 591	0	0	0	1 263 214
Total	**3 542 504**	**2 016 032**	**437 361**	**48 265**	**778 105**	**6 822 267**

(CZK '000)

31 Dec 2008	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	3 437 042	1 467 817	742 087	18 888	584 923	6 250 757
Finance lease assets	720	0	10 148	18 011	480 803	509 682
Fixed interest rate instruments	4 117 408	0	0	0	0	4 117 408
Total	**7 555 170**	**1 467 817**	**752 235**	**36 899**	**1 065 726**	**10 877 847**

35.9.2 Financing Facilities

The Group has access to the below loan facilities:

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Overdraft loan facilities:			
– amount of the loan facility	*3 420 000*	*3 180 000*	*3 160 000*
– amount unused	*688 374*	*584 676*	*461 681*
Bills of exchange programme:			
– amount of the loan facility	*6 500 000*	*1 500 000*	*0*
– amount unused	*3 622 883*	*486 500*	*0*

35.10 Fair Value of Financial Instruments

35.10.1 Fair Values of Financial Instruments Carried at Amortised Cost

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

35.10.2 Valuation Techniques Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

- The fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments and an appropriate yield curve with the corresponding duration as appropriate.

- The fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows with the use of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

35.10.3 Fair Value Measurements Recognised in the Statement of Financial Position

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Group as of 31 December 2010, 31 December 2009 and 31 December 2008 are included in Level 3. Financial assets available for sale include equity investments the fair value of which cannot be reliably determined and hence are measured at cost.

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

(CZK '000)

	Available-for-sale financial assets	Derivatives	Total
Balance at 31 Dec 2008	**381 150**	**-1327784**	**-946 634**
Total gains (losses) from revaluation	410	101 550	101 960
– *in profit or loss*	*410*	*45 827*	*46 237*
– *in other comprehensive income*	*0*	*55 723*	*55 723*
Purchases	2 200	0	2 200
Sales/settlement	-7 543	463 258	455 715
Balance at 31 Dec 2009	**376 217**	**-762 976**	**-386 759**
Total gains (losses) from revaluation	-5 605	285 936	280 331
– *in profit or loss*	*-5 605*	*12 337*	*6 732*
– *in other comprehensive income*	*0*	*273 599*	*273 599*
Purchases	41 086	0	41 086
Sales/settlement	-5 189	386 878	381 689
Balance at 31 Dec 2010	**406 509**	**-90 162**	**316 347**

36 POST BALANCE SHEET EVENTS

The Parent Company started to prepare the transfer of its business part securing the servicing of the railway route to SŽDC (see Note 15.4)

37 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 15 April 2011.

ISSUER
České dráhy, a.s.
Nábřeží L. Svobody 1222
110 15 Prague 1
Czech Republic

FISCAL AGENT, TRANSFER AGENT AND PAYING AGENT
Citibank, N.A., London Branch
13th Floor
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

REGISTRAR
Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

LISTING AGENT
Banque Internationale à Luxembourg SA
69, route d'Esch.
L-2953 Luxembourg
Grand Duchy of Luxembourg

LEGAL ADVISERS

To the Issuer as to English law:

White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

To the Issuer as to Czech law:

White & Case (Europe) LLP, organizační složka
Na Příkopě 850/8
110 00 Prague 1
Czech Republic

To the Managers as to English law:

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

To the Managers as to Czech law:

BBH, advokátní kancelář, v.o.s.
Klimentská 1207/10
110 00 Prague 1
Czech Republic

AUDITORS TO THE ISSUER
Deloitte Audit s.r.o.
Nile House
Karolinská 654/2
186 00 Prague 8 – Karlín
Czech Republic

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