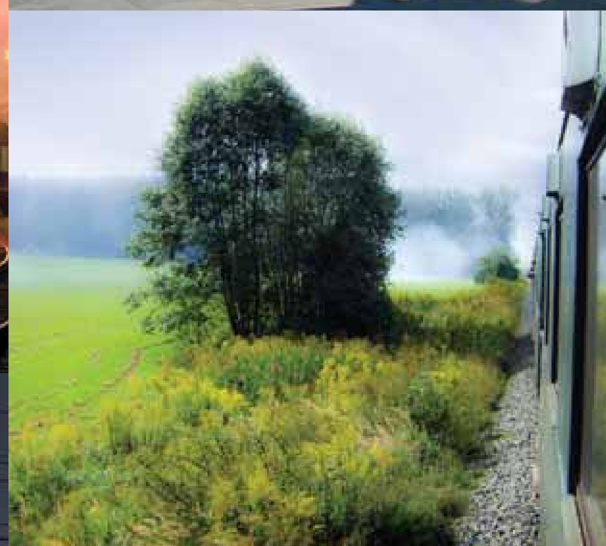
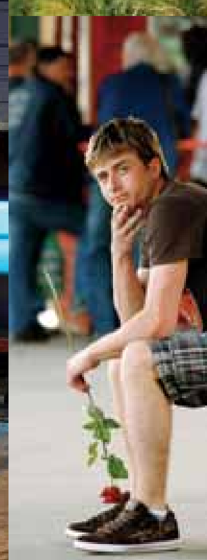


Annual Report 2010
České dráhy Group



Annual Report 2010
České dráhy Group

Key indicators of the České dráhy Group

Key indicators Financial indicators consol. IFRS in CZK million	2010	2009	Difference	%
ČD Group				
EBITDA	**4,662**	4,080	+582	114.3
EBIT	**-1,015**	-2,622	+1,607	38.7
Profit/loss for the reported period	**-940**	-2,567	+1,627	36.6
Total assets	**75,794**	72,667	+3,127	104.3
CAPEX	**12,114**	10,030	+2,084	120.8
Amortisation and depreciation	**5,677**	6,702	-1,025	84.7
Indebtedness (%)	**44.7**	41.2	+3.5	108.5
Liquidity (%)	**34.9**	62.0	-27.1	56.3
ROCE (%)	**-1.8**	-4.6	+2.8	39.1
Average recalculated headcount	**38,046**	41,081	-3,035	92.6
Passenger transport (ČD, a.s.)				
Number of passengers (mil.)	**163**	163	0	100.0
Transportation performance (mil. passenger-kilometres)	**6,553**	6,462	+91	101.4
Traffic performance (mil. train-kilometres)	**122.1**	125.2	-3.1	97.5
Average transportation distance (km)	**40**	40	0	100.0
Utilisation of the offered capacity (%)	**23**	22	+1	104.5
Freight transport (ČD Cargo, a.s.)				
Transportation volume (mil. tonnes)	**76.72**	68.37	+8.35	112.2
Transportation performance (mil. tariff tonne-kilometres)	**13,592**	12,581	+1,011	108.0
Train movements (mil. train-kilometres)	**25.9**	26.1	-0.2	99.2
Average transportation distance (km)	**177**	184	-7	96.2
Operational management (ČD, a.s.)				
Observance of schedules (%)	**90.4**	91.1	-0.7	99.2
Length of operated routes (km)	**9,412**	9,420	-8	99.9
Trains monitored in the SŽDC network (thousand)	**5,195**	5,276	-81	98.5
DPOV, a.s.				
SOP – Average actual repair period (days)	**79.02**	98.88	-19.86	79.9
ODKP - Average additional repair period (days)	**80.49**	98.76	-18.27	81.5
Weighted average calculated from (SOP) – (ODKP)	**-1.75**	-0.46	-1.29	380.43

In 2010 we took further steps in modernising and developing our company towards achieving our ultimate goal: to become the number one provider of railway transportation services for both passengers and orderers. This annual report features photos taken by our passengers themselves, documenting both the perception of České dráhy as a company and the greater emotional appeal of travelling by train.

Introduction, Vision and Goals

About us

- We are a transportation enterprise which operates passenger and freight railway transport, including:
- Provision of regional, long-distance and international passenger railway transportation services;
- Provision of comprehensive freight transportation services across Europe;
- Provision of infrastructure operation services to Správa železniční dopravní cesty, s.o. (SŽDC);
- Provision of IT services to railway transportation companies and railway infrastructure administrators;
- Provision of comprehensive repair services for rolling stock and railroad infrastructure;
- Provision of testing services, railway transportation research and development; and
- Provision of railway catering services.

Our goal

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

How to attain our goal

- We are customer-focused and try to make our services simple and easy to use.
- We invest in the modernisation of our rolling stock and include new rolling stock in our operations.
- We invest in the modernisation of station buildings and make rail travel more pleasant.
- We implement modern technologies in ticket sales and traveller check-in.
- We decrease operating costs per operating unit on a long-term basis.
- In 2010 the Vision 2012 programme continued. The programme aims to terminate the historical uncoordinated steps in the area of passenger railway transport funding and to obtain an additional amount of at least CZK 4 billion

The Vision 2012 programme predominantly covers the following areas:

- Customer focus;
- Relationships with the clients;
- Development of the commercial activities;
- Operational efficiency improvement; and
- Modern organisation and human resources.

The České dráhy Group

■ **THE ČESKÉ DRÁHY GROUP,** including the parent company České dráhy, a.s. and its subsidiaries, offers comprehensive railway operation-related services, including the operation of passenger and freight transport and additional activities predominantly relating to repairs, railway research, testing, IT, accommodation and catering services.

■ **ČESKÉ DRÁHY, A.S. (ČD)** is the largest Czech passenger railway transport operator with a long tradition. Based on orders and contractual arrangements, ČD ensures the operation of the national and regional railway network administered by the state organisation SŽDC (Rail infrastructure Administration). Thanks to the volume of passenger transport, ČD ranks among the 10 most important railroad businesses in the European Union. The most important customers in passenger transport are individual regions as well as the state represented by the Ministry of Transport of the Czech Republic. In a growing number of cases, customer services are provided on the basis of tenders.

■ **ČD CARGO, A.S. (ČDC)** provides transportation of industrial and agricultural products, raw materials, fuels, goods, containers and oversized loads. It also ensures rental of freight cars, and railway siding and other transportation services. The future activities of ČDC will be focused on investments in the development of infrastructure to support the linkage of industrial areas with railway transport by building combined transport terminals and logistics centres. The services provided by ČDC were certified ISO 9001 by Moody International, s.r.o. on 19 February 2007.

■ **ČD - TELEMATIKA A.S. (ČD-T)** offers telecommunication and IT services. ČD-T operates the second largest telecommunication infrastructure in the Czech Republic, central data storage, server farms, and development, service and other specialised workplaces. The most significant customer of ČD-T is ČD; other important customers include major telecom operators and significant companies with decentralised administration.

■ **DPOV, A.S., (DPOV)** provides repair services for rolling stock, including the latest ones operated by ČD. In addition to the ČD Group, the customers of DPOV include foreign railway companies, mainly from Germany and Poland.

■ **VÝZKUMNÝ ÚSTAV ŽELEZNIČNÍ, A.S. (VUZ)** provides special testing services. The main activities include certification and compliance-assessment of products and quality systems with a special focus on products and subsystems for the interoperability of the railway system. VUZ is a Notified Body authorised to inspect all structural subsystems.

■ **JÍDELNÍ A LŮŽKOVÉ VOZY, A.S. (JLV)** provides accommodation and catering services in railway passenger transportation. The company also offers gastronomy, retail and catering services.

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Power and Technology

From its beginning, the railway has been a symbol of technology at the service of man. What's more, the 21st century has provided a combination of power and modern technology, which is a challenge.

Faster and Faster / 17 June 2010

"It starts slowly, then it gains speed. Before you know it, hundreds of people are taken on their way. This takes place every hour, every day, for months and decades. And always faster and faster."

Photograph by / passenger of ČD **Petr Kaválek**

STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Ing. Petr Žaluda

Opening Statement of the Chairman of the Board of Directors

Ladies and Gentlemen,

Last year's business results of České dráhy developed in accordance with the business plan and resulted in a modest profit. In 2011 we anticipate to generate a profit of CZK 320 million, according to the Czech accounting standards (CAS). This is based on system measures which goal is to enhance our company's efficiency, transparency and competitiveness.

Last year the costs remained on the same level like in 2009 but we saved almost 1 billion Czech crowns in relation to the regions and the state. We sought savings principally in the area of overhead costs and want to maintain this trend going forward. By introducing centralised procurement we will save approximately CZK 150-200 million. Additional savings are achieved for instance by the decrease in staff costs or in electricity purchases. In late 2010 a supplier of electricity was selected in an electronic auction for the first time in the company's history. Transparency and good business results are the precondition of České dráhy's entering the international capital market as planned. In this respect, for the second year we have prepared the financial statements in accordance to both Czech and international legal regulations. The issuance of international bonds would ensure funding to finance the modernisation of the rolling stock.

Service and train car quality is the primary interest of the general public. By using the European funds, commercial funding and also the internal funding, we have started a massive modernisation programme that in the next two years will bring a crucial change to the travelling comfort on the Czech railways. Last year we signed contracts for the modernisation of existing cars and the production of brand new cars and trains in the amount of nearly CZK 10 billion. This year we will receive the first major supplies of new train units for the regional transportation and of modernised cars for the long-distance transportation. Even a more ground-breaking shift in the train car quality can be expected in 2012 and 2013. This is inevitably related to the quality enhancement of our staff and the provided additional services.

The fact that the passengers perceive the changes is reflected by the increasing income from the passenger transportation where year-to-year sales increased by CZK 168.1 million. In both 2009 and 2010 we carried 163 million passengers. More often, passengers opt for travelling by train on medium and long distances. As such, the railway is becoming the backbone of public transportation. This is a clear signal for us to focus even more on the modernisation of rolling stock in the long-distance transportation segment. In addition, with regard to the liberalisation of the railway transportation, the fight for customers will not take place on regional routes, but primarily on the main railway corridors that represent the major economic potential of the railway transportation.

Ladies and Gentlemen, České dráhy is a national transportation company and as such, it is obliged to actively participate in the provision of public transportation; this service is rendered to the citizens by individual regions and the state. In addition, the company is an individual business unit that must be good enough to be able to compete with its rivals while adding value to the state-owned assets. I firmly believe that all our steps will lead to meet both our commitments to the customers and the state.

Petr Žaluda
Chairman of the Board of Directors and CEO





MANAGEMENT OF THE COMPANY

1 2 3
4 5

(1) Petr Žaluda
(2) Michal Nebeský
(3) Jiří Kolář, Ph.D.
(4) Antonín Blažek
(5) Milan Matzenauer

Statutory Bodies and Management of the Company

Board of Directors

Petr Žaluda

■ CHAIRMAN OF THE BOARD OF DIRECTORS (SINCE 1 FEBRUARY 2008) AND CEO (SINCE 1 FEBRUARY 2008), AGE: 44.

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

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

Michal Nebeský

■ MEMBER OF THE BOARD OF DIRECTORS (SINCE 12 SEPTEMBER 2008) AND DEPUTY CEO FOR FINANCE (SINCE 1 SEPTEMBER 2008), AGE: 43

Michal Nebeský graduated from the University of Economics in Prague, Faculty of International Trade and Finance. From 1991 he worked at Citibank where he was appointed Risk Manager for the Czech Republic in 2003 and Risk Manager for Central Europe in 2005.

Jiří Kolář

■ MEMBER OF THE BOARD OF DIRECTORS (SINCE 9 MAY 2005) AND DEPUTY CEO FOR OPERATIONS (SINCE 1 FEBRUARY 2008), AGE: 47

Jiří Kolář graduated from the Faculty of Operations and Economics of the Transport University in Žilina where he majored in transport operations and economics. In 1983, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed various duties relating to railway operations. Between 1993 and 1999, he worked as stationmaster in Kladno. In 1999, he completed postgraduate studies at the University of Pardubice. Between 1999 and 2004, he was the Director of OPŘ Ústí nad Labem.

Antonín Blažek

■ MEMBER OF THE BOARD OF DIRECTORS (SINCE 14 MAY 2009) AND DEPUTY CEO FOR PASSENGER TRANSPORTATION (FROM 17 MARCH 2009), AGE: 47

Antonín Blažek graduated from the Faculty of Mechanical Engineering at the Czech Technical University in Prague where he majored in transport and handling technology. In 1987, he joined the then Československé státní dráhy (Czechoslovak State Railways) at the Praha-Libeň railway yard. He was the head of the PJ Praha-Libeň (DKV Praha-sever) operations in 1994 and 1995 and then worked as a stationmaster of PJ Praha-Libeň until 1996. From 1997, he worked at the ČD headquarters as a Consultant to Deputy CEO for Assets Administration and then in the strategic department, where he managed the international projects department. From 2003 to 2005, as a technical consultant to the Deputy CEO for Business and Operations, he managed a compliance committee for approval of trains of the 680 line for international operation. In 2005 he was the director of the infrastructure department and director of the office of the Deputy CEO for Transport Routes. Since November 2005, he has been in the position of the Chairman of the Board of Directors of Výzkumný Ústav Železniční, a.s. (VUZ). Between 2005 and 2009, he held the position of CEO of VUZ. Since 2009 he has been a member of the Board of Directors of EUROSIGNAL, a.s.

Milan Matzenauer

■ MEMBER OF THE BOARD OF DIRECTORS (SINCE 14 NOVEMBER 2008) AND DEPUTY CEO FOR ASSET ADMINISTRATION (SINCE 1 DECEMBER 2008), AGE: 60

Milan Matzenauer graduated from the Technical University in Brno, where he majored in transport buildings and structures. Prior to joining ČD, a.s. he worked as a Sales Director in Skanska DS.


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We Connect People and Places

Whether it's helping people get to their loved ones, or helping goods get to customers, what's needed is speed, accuracy, and most importantly, reliability.

You Only Have To Choose / 21 July 2010

"Those who have experienced it, will never forget it. Sitting down and being transported through cities and across landscapes. The feeling of relaxation and freedom after choosing a destination and getting on your way. In front of the windows, the lives of others move by fast. It's like a film one relives again and again."

Photograph by / passenger of ČD **Michal Nogly**

Supervisory Board

Lukáš Hampl
Chairman of the Supervisory Board (since 8 October 2008), (member since 16 September 2010) age: 37
Ministry of Transport of the Czech Republic

Radek Šmerda
Member of the Supervisory Board (since 16 September 2010), age: 33
Ministry of Transport of the Czech Republic, Deputy Minister

Miroslav Nádvorník
Member of the Supervisory Board (since 16 September 2010), age: 44
Chairman of the Board of Directors and CEO of MD Logistika, a.s.

Michael Hrbata
Member of the Supervisory Board (since 16 September 2010), age: 39
Deputy Minister of Defence of the Czech Republic

Jaroslav Palas
Member of the Supervisory Board (since 4 March 2010), age: 48
Governor of the Moravian-Silesian Region

Zdeněk Prosek
Member of the Supervisory Board (since 20 April 2007), age: 60

Vladislav Vokoun
Member of the Supervisory Board (since 1 January 2009), age: 51
Vice-Chairman of the Confederation of Railroad Unions (OSŽ)

Antonín Leitgeb
Member of the Supervisory Board (since 1 January 2009), age: 51
Secretary of the Company Committee of the Confederation of Railroad Unions (OSŽ)

Jan Bitter
Member of the Supervisory Board (from 5 May 2006), age: 54
Chairman of the Coordination Committee of the Confederation of Railroad Unions at DKV Prague, and a member of the Company Committee of the Confederation of Railroad Unions for ČD, a.s.

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

Steering Commitee

Radek Šmerda
Chairman of the Steering Committee; Deputy Minister of Transport of the Czech Republic – State Secretary
Appointed Chairman following resolution of the Czech Government no. 582 of 11 August 2010

Jakub Hodinář
Vice-Chairman of the Steering Committee; Deputy Minister of Transport of the Czech Republic
Appointed Vice-Chairman following resolution of the Czech Government no. 582 of 11 August 2010

Lukáš Hampl
Member of the Steering Committee; Ministry of Transport of the Czech Republic
Appointed following resolution of the Czech Government no. 582 of 11 August 2010

Michael Hrbata
Member of the Steering Committee; Deputy Minister of Defence of the Czech Republic
Appointed following resolution of the Czech Government no. 582 of 11 August 2010

Michal Janeba
Member of the Steering Committee; Deputy Minister for Regional Development of the Czech Republic
Appointed following resolution of the Czech Government no. 582 of 11 August 2010

Petr Polák
Member of the Steering Committee; Chief of the Division of Interdepartmental Issues and State-Owned Enterprises, the Ministry of Industry and Trade of the Czech Republic
Appointed following resolution of the Czech Government no. 1168 of 11 October 2006

Miloslav Müller
Member of the Steering Committee; Chief of Staff of the Minister of Finance of the Czech Republic
Appointed following resolution of the Czech Government no. 207 of 7 March 2007

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

Report of the Supervisory Board

Report on the activities of the Supervisory Board of České dráhy, a.s. for 2010

In 2010 the Company's Supervisory Board held eight ordinary meetings and one extraordinary meeting; four resolutions were passed by the Supervisory Board outside a meeting on the per rollam basis.

In 2010 the Company's Supervisory Board performed its activities and fulfilled the aggregate tasks in accordance with the legal regulations and the Company's Articles of Association. On continuous basis the Supervisory Board monitored the performance of activities of the Board of Directors and the proceeding and development of the Company's business activities. Principally the Supervisory Board focused on the current status of material contracts, the realisation of projects according to the investment plan and meeting of the goals set out by the annual business plan.

In addition, the Supervisory Board discussed and assessed a range of applications filed by the Company's Board of Directors for obtaining an approval prior to specific legal acts. In performing its activities, the Supervisory Board made multiple comments, suggestions and requirements relating to the underlying documentation that was the subject of the discussions.

The Company's Board of Directors provided the Supervisory Board with the aggregate information required or necessary for performing the Supervisory Board's oversight activities and cooperated with the Supervisory Board accordingly. In addition, the Company's Board of Directors regularly took part in all meetings of the Supervisory Board.

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

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

In Prague on 10 March 2011

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


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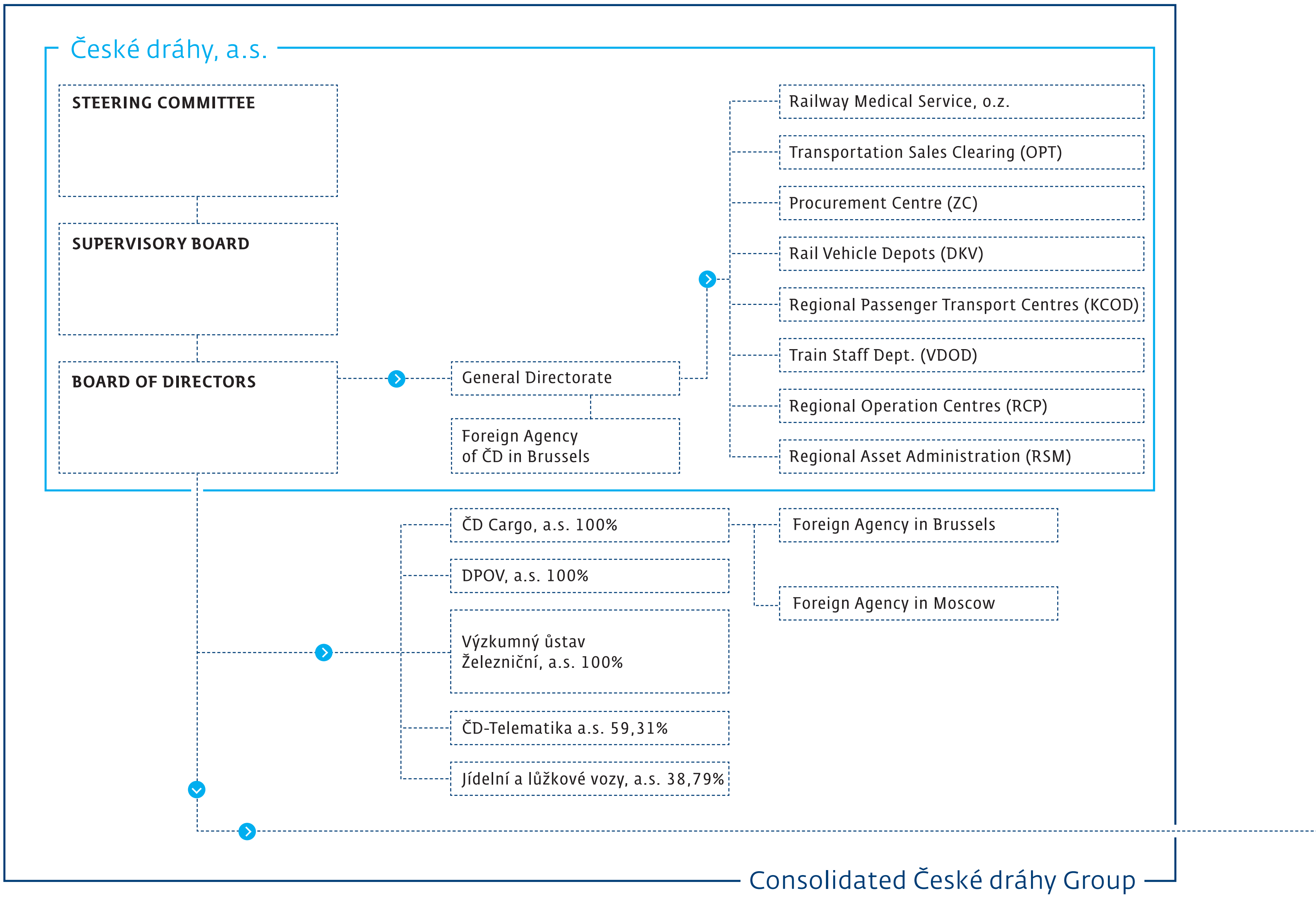
Organisational Structure of the České dráhy Group

As of 31 December 2010



ČD Foreign agency in Brussels terminated its activities as of 31 December 2010

ČD's equity investment of 51,01% in Traťová strojní společnost, a.s. was transferred to acquiring company, Ostravské opravny a strojírny, a.s. in August 2010

- Dopravní vzdělávací institut, a.s. 100%
- Centrum Holešovice, a.s. 51%
- Smíchov Station Development, a.s. 51%
- Žižkov Station Development, a.s. 51%
- Masaryk Station Development, a.s. 34%
- INTERNATIONALE SPEDITION Děčín, a.s. 6,25%
- Intercontainer-Interfrigo 0,43%
- EUROFIMA 1%
- STROJEXPORT 0,12%
- HIT Rail BV 4%

The extraordinary General Meeting of Intercontainer-Interfrigo SA held on 26 November 2010 decided to dissolve and liquidate the company. ČD's equity investment in the company amounts to 0.43%.

- RAILREKLAM, s.r.o. 51%
- RailReal, a.s. 66%
- ČD Reality, a.s. 51%
- ČD travel, s.r.o. 51,72%
- ČD Restaurant, a.s. 40%
- RS hotel, a.s. 34%
- CR City, a.s. 34%
- WHITEWATER a.s. 34%
- CR office, a.s. 34%
- RS Residence s.r.o. 34%
- PRaK, a.s. 14, 53%

ČD's equity investments of 20 % in the ČD Restaurant, a.s. increased to 40% in April 2010.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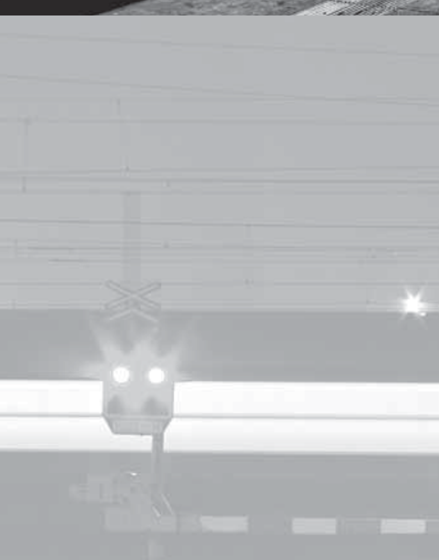


Responsibility That Pleases, Tradition That Obliges

Thanks to its history, the railroad carries a touch of romanticism, nostalgia and reliability with it. And we do everything we can to live up to that tradition.

Travel As An Invitation /
/ 10 November 2010

"Sometimes you want to, sometimes you have to. Whatever the reason, each and every trip can be exciting and romantic. And some impressions can even last a lifetime."

Photograph by / passenger of ČD **Matouš Vinš**

2010 Events Calendar

01 January

Beginning 1 January 2010 ČD started buying the traction electricity directly from ČEZ, and SŽDC was removed from the supplier chain. ČD anticipates that the new system will achieve annual savings of at least several tens of million of Czech crowns. ČD delivers the electricity to all other transportation companies within the state-owned railway network.

02 February

ČDC joined the prestigious alliance of selected national railroad transportation companies, Xrail, the goal of which is to ensure the quality of the international railway cargo transportation. ČD presented its travelling offer at the 2010 HOLIDAY WORLD trade conference in Prague.

03 March

In cooperation with the Police of the Czech Republic, the Department for Road Transport Safety (BESIP) of the Ministry of Transport of the Czech Republic, the Railway Inspectorate (Drážní inspekce) and ČDC, ČD again dispatched the special "Prevention Train". On this train, short films to the students and the general public are projected which display fatal railroad accidents and which could have been prevented. In addition, such events serve for first aid trainings with rescue workers and discussions with the railway inspectors, police officers and experts from the Department for Road Transport Safety (BESIP).

04 April

The 680 series Pendolino train sets exceeded the aggregate mileage of 10 million kilometres.

05 May

To celebrate the Public Transportation Day on 29 May, the Karlovy Vary Region commemorated the 10th anniversary of operations on the EgroNet track – a unique cross-border integrated transportation system. Sixty-two Czech and German transportation companies took part in the event.

06 June

On 8 June 2010 the Supervisory Board of ČD discussed and approved the "2010 and 2011 Investment Funding Strategy of ČD". The document is based on the anticipation that the company will obtain the international investment rating which will enable it to enter the international capital market by issuing the bonds in the amount of up to EUR 300 million.

The winner of the tender for the electric power supplier of for the Czech railway network, ČEZ Prodej, started providing elektricity for the traction from 13 July 2010.

07 July

ČD started operating the "nostalgia trains" as part of the "Jihočeské léto s párou" ("South Bohemian Summer of Steam") project.

08 August

ČD's equity investment of 51.01% in Traťová a strojní společnost, a.s. was transferred to the acquiring company, Ostravské opravny a strojírny, a.s.

After 65 years the passenger railway transportation was renewed on the track from Sklářská Poreba in Poland to Harrachov.

The Government of the Czech Republic made changes in the composition of the Steering Committee of ČD.

09 September

ČD launched a pilot project focusing on the passenger compensation for delays and discomfort.

10 October

Starting 1 October 2010, E.ON became the supplier of electrical power for the Czech railway network. ČEZ Prodej was selected the supplier of traction electricity in an electronic auction with the effect from 1 January 2011.

11 November

The reconstructed ČD railway station building in Český Brod was reopened.

12 December

The fifth anniversary of ČD operating the prestigious SC Pendolino trains.

Launch of the SporoTiket electronic tickets that are available through the eShop.

Corporate Governance

Shareholder structure

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

Cooperation of the board of directors and the supervisory board

BOARD OF DIRECTORS

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

SUPERVISORY BOARD

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

STEERING COMMITTEE

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

AUDIT COMMITTEE

The members of the Audit Committee are appointed and recalled by the General Meeting. The Audit Committee has three members. The term of the office is five years. The Audit Committee meetings are held as and when needed, however, at least four times a year.
The most significant activities include the following:

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

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

INTERNAL AUDIT

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

COMPLIANCE

Pursuant to the Resolution of the Board of Directors of ČD no. 2277/2010 from 29 September 2010, the Compliance department was established with the effect from 1 October 2010. The principal activities of the department are as follows:

- ensuring the compliance of the internal regulations with the generally binding legal regulations and the compliance among the individual internal regulations;
- identification of potential risks and the impacts arising from the anticipated changes in legal regulations; and
- presentation of the comments and the discussion of the proposed changes in the legal and internal regulations as well as the corporate culture maintenance.

As part of the compliance policy approved by the ČD Group, the department ensures compliance supervision across the ČD Group. In addition, the director of the Compliance department holds a position as a member of the Risk Management Committee. The scope of the authority of the Compliance department is defined by the ČD Compliance Department Statutes and the organisational system of ČD. Before the Compliance department was established, the compliance review of the legal obligations defined by legal regulations and the compliance of the internal regulations of the Company with the Czech legal system was within the scope and authority of the Legal department.

TRANSPARENCY AND REPORTING

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

RISK MANAGEMENT

ČD's risk management system is based on the defined framework of the Corporate Governance rules and forms an integral part thereof. In 2010 the significance of the risk management was increased as part of the efforts to improve the quality of governance and management of both ČD and the entire ČD Group.

The efforts to develop an integrated risk management system continued across the ČD Group. The principal purpose of the system was to improve 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 new system is to maximally limit the adverse impact of the risks on the financial results of the entire ČD Group, ie to minimise the impacts of unutilised opportunities on revenues and to minimise impacts on costs.

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

MARKET RISKS

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

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

Both ČD and ČDC actively utilise natural hedging, and, as and when needed, they ensure the limits are adhered to using the standard hedging transactions on the financial markets. In 2010 a portion of the interest

rate risk was partially hedged, and commodity risks were hedged gradually on a medium-term basis, particularly with regard to the price of oil.

CREDIT RISK

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

To measure credit risk, the ČD Group calculates the net (uncollateralised) exposure to individual counterparties. Credit risk management in the ČD Group is based on the following system of limits and restrictions: limits relating to 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.

LIQUIDITY RISK

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

Assessing the short-term and medium-term development of liquidity and cash flows is crucial in managing the liquidity. Obtaining sufficient lending facilities from the funding banks forms an integral part of liquidity risk management. The ČD Group uses available overdraft facilities from its house banks and allocates their limits among Group members as and when needed. The ČD Group also actively issues short-term securities through a promissory note programme as an additional source of short-term liquidity. The ČD Group anticipates entering debt capital markets as its principal source of investment funding, complemented with the use of the long-term investment loans and/or finance leases.

OPERATIONAL RISK

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

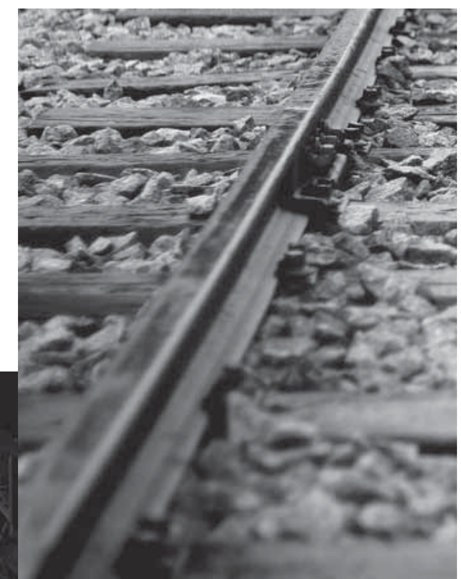
As the requirements of passenger transportation orderers and customers for travel comfort and railway transportation punctuality increase and with regard to the upcoming entrance of the local transportation competitors, the key instrument to mitigate the impact of operational risks involves increasing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

Corporate Social Responsibility

Although ČD adopted a number of additional austerity measures, it continuously maintains its activities relating to work with children and young people, removing barriers for disabled people, environmental protection, and other areas that relate to the corporate responsibility of a national railway transporter. ČD is the only transport company providing transport services to wheelchair-bound people in approximately a third of its daily scheduled trains. Barrier-free space is becoming common in the new as well as the modernised trains and train cars. In addition, the Company continued its "Prevention Train" project, which focuses on young people between 13 and 18 years of age and the aim of which is to prevent injuries. However, ČD's efforts related to removing the barriers do not only focus on wheelchair-bound people, but also on seniors, blind and deaf people, mothers with children and on people with temporary handicaps. In cooperation with the Union of Railway Employees, in 2010, for the seventh time, ČD dispatched the "Train Full of Smiles" that brought orphans and caretakers to the international children's film festival in Zlín. As part of the "Junior" project, the "Cinema Train" was dispatched. In addition, ČD took part in the traditional "Bambiriáda" project in Prague, organised the St. Nicolas celebration and organised the Children Day. The Company's traditional partnership includes cooperation with the National Technical Museum and the Okřídlené Oko foundation that focuses on the renovation and maintenance of historic railway equipment and structures.





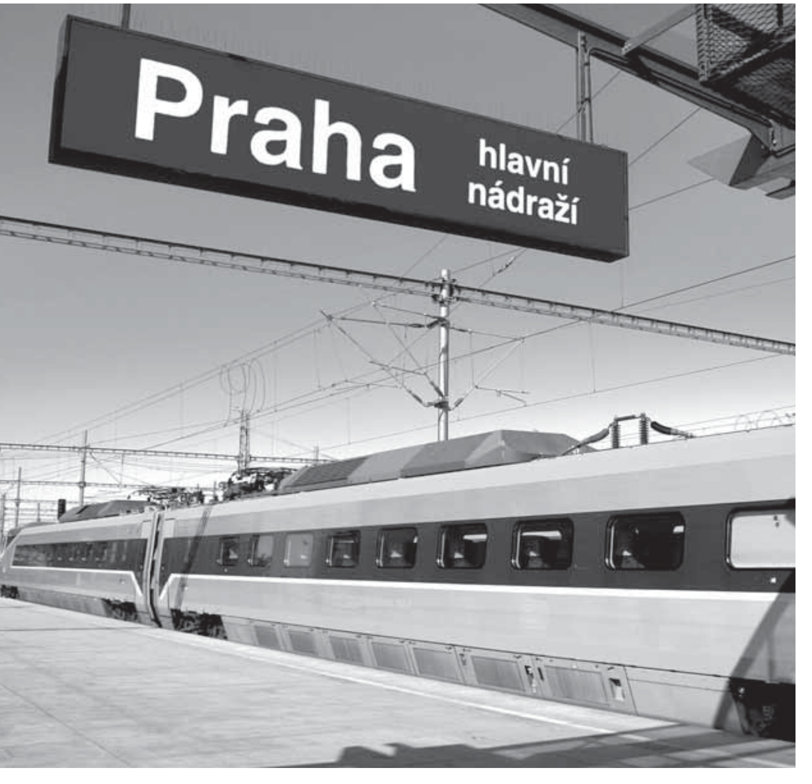
Safety Is A Commitment

The train is probably a child's most loved way to travel. What's more, it's by far the safest. This responsibility is a commitment for us.

When Everything Works As It Should /
/ 17 August 2010

"It's been quite a few years, but I still remember travelling with my parents. I would look forward to the trips for days. And I want my daughter to have the same experience. Peace, comfort, and safety. In other words, I want her to experience the world as it should be."

Photograph by / passenger of ČD **Dana Langrová**



Report of the Board of Directors

Report on the business activities and assets of České dráhy, a.s.

All finance data in the Report of the Board of Directors are according to the Czech accounting standards (CAS)

Operation of passenger railway transportation

ČD had concluded long-term contracts on public service obligation with all regions incl. the City of Prague and the Ministry of Transportation. The contracts represent the basis for an ongoing modernisation of rolling stock.

As part of a state order, the public service obligation contracts (ZVS) include the train categories starting fast trains (R) and higher, with the exception of trains pulled by the 680 line Pendolino units, or selected express trains (Sp) as based on agreements with the regions. For the second consecutive year, in terms of long-distance transportation, public service obligation contracts also included the EC and IC category trains. Together with lower category trains these trains formed an integrated system. The orders placed by regions also include passenger trains (the Os category), all express trains (Sp) (up to certain exceptions), and selected fast trains (R category), as based on individual agreements with long-distance transportation contractors.

In cooperation with the Ministry of Transportation (MD) and individual regions, ČD applied a proactive customer-focused approach in meeting the relevant requirements based upon the capacities of the infrastructure while using suitable rolling stock. In the second half of 2010 the preparation of the 2010/2011 timetable was affected by SŽDC's effort to stop the railway operations on certain regional tracks owned by the state.

2010 feature proactive work on projects for the modernisation of the rolling stock. The major part of anticipated projects for the modernisation of the rolling stock was prepared and filed for the approval with a view to using EU funding. Thirteen projects were approved and two projects remained outstanding in the approval proceedings.

The compensation project was prepared and launched in respect to the domestic transportation using the higher category trains.

This exceeds the scope defined by the Directive of the European Parliament and the European Council no. 1371/2007 of 23 October 2007, on the Rights and Obligations of Railway Transportation Passengers. Also, a project for enhancing the quality of EC/IC trains was prepared for implementation. The projects for enhancing the degree of the satisfaction of the customers received a great amount of support. The projects were principally focused on the quality of services, cleaning of trains and railway stations, modernisation and increased user-friendliness of the rolling stock, as well as enhancing level of the information availability. The MIMO system was implemented with a view to the provision of information on extraordinary events via SMS. This will serve for informing the relevant train staff teams so that the passengers receive timely information.

In respect to the transport organisation, the 2010/2011 timetable was especially beneficial to suburban transportation in Prague where the system of transit lines was enhanced and the concentration of transport increased. In terms of long-distance transportation, some EC/IC trains were removed from the public service obligation and are currently operated as part of ČD's commercial activities. No changes were made in the domestic transportation performance for the 680 line SC train units. In cross-border transportation, the operation of these units was terminated on the track to Vienna and, conversely, after a one-year break their operation was renewed on the track to Bratislava.

ROLLING STOCK

In the area of the rolling stock, the long-term cooperation with the international railway transport companies continued. On gradual basis the railway sections for which locomotives of the foreign operators cooperating with ČD are approved were expanded.

ŠKODA Transportation is finishing the production of 20 three systems electric locomotives of the 380 series that are to be homologated under international standards and that will be used by ČD.

Pilot testing of these locomotives was run in 2010. First these were tested in freight transportation by ČDC and after the 2010/2011 timetable implementation, these were also tested on selected ČD passenger transportation trains.

At the end of 2010 the asset balance of ČD included 66 three-car double-decker electric City Elefant train sets of the 471 series. On an ongoing basis, these trains are supplied by Škoda Vagonka. These train sets are principally used in suburban transportation in Prague and in Central Bohemia and also in the Ostrava and Ústí nad Labem suburbs. In addition, the modernisation of railcars and trailers for the 814 series Regionova train sets continued. At the end of 2010 ČD's inventory balance included 189 of these trains, of which 137 were two-car trains and 26 were three-car trains.

Fifty-five trail cars were modernised, which, combined with the modernised type 854 drive and control cars, improves the capacity for variable diesel reversible sets (without the need to reposition at end stations). The renovation of 34 passenger wagons was initiated. These will be transformed into control cars for locomotive-driven reversible train sets. Six wagons of the second class with a restaurant section were modernised into the so-called bistro-cars that also include the first class section. Through the completion of the technical upgrade of type 150.0 locomotives to type 150.2 and an ongoing technical upgrade of the type 363 locomotives to the type 362, the number of ČD's traction vehicles with the maximum speed of 140 km/h increased.

Aging Structure of the Tractive Vehicles

(balance as of 31 December 2010)

TRACTIVE		Number of Tractive Vehicles by Age				
		Total	0-10 years	11-20 years	21-30 years	old
Trailers of el. and diesel sets		315	108	11	0	196
Electric locomotives	DC	158	0	78	34	46
	AC	100	0	0	36	64
	Multisystem	90	0	5	85	0
Electric train sets	DC	204	61	9	0	134
	AC	20	0	0	0	20
	Multisystem	28	28	0	0	0
Diesel locomotives		300	8	93	28	171
Diesel railcars and sets 1)		671	238	68	175	190
Control cars of el. and diesel sets		203	198	5	0	0
Passenger transport tractive vehicles		**2,089**	**641**	**269**	**358**	**821**
		100%	31%	13%	17%	39%
Historic tractive vehicles 2)		76	0	1	0	75
Disposed of tract. veh. 3)		89	0	1	3	85
Total tractive vehicles		**2,254**	**641**	**271**	**361**	**981**

1) The units are reported by individual vehicles.
2) Tractive vehicles allocated into the category of historic tractive vehicles (unless disposed of)
3) Disposed of tractive vehicles that have not yet been physically liquidated or written-off from assets.

Aging Structure of Hauled Passenger Wagons

(balance as of 31 December 2010)

PASSENGER TRAIN WAGONS	Number of Passenger Wagons by Age of Wagons				
	Total	0-10 years	11-20 years	21-30 years	old
Sleeping and restaurant Wagons	114	12	10	57	35
International transportation Wagons (RIC)	650	56	9	427	158
Four-axle cars for domestic transportation (other than service Wagons)	1,392	0	365	226	801
Trailer and individual control Wagons for diesel Wagons	847	19	45	218	565
Other passenger Wagons 1)	222	0	0	6	216
Passenger transportation Wagons	**3,225**	**87**	**429**	**934**	**1,775**
	100%	3%	13%	29%	55%
Special purpose Wagons 2)	164	1	2	26	135
Historic Wagons 3)	153	0	0	2	151
Cars total	**3,542**	**88**	**431**	**962**	**2,061**

1) Parlour Wagons, luggage Wagons, service Wagons, military purposes Wagons and other
2) Train Wagons for residential use, work train Wagons, tool train Wagons, auxiliary train Wagons, Wagons used for cultural purposes, promotion train Wagons, ant others
3) Historic passenger train Wagons

Sales in Passenger Transportation

DOMESTIC PRODUCTS

For one-off events with a great transportation potential the "VLAK+" special offer was implemented. In June 2010 the "Airport Prague VLAK+" discount was implemented with a view to enable customers to travel from anywhere in the Czech Republic to the Prague Airport station (NAD) using a discount of 50%. Thanks to the price attractiveness, suitable time planning prior to the main tourist season and a successful promotion campaign, the number of passengers markedly increased, principally at the "Airport Express" coach line that connects Prague's main railway station with Prague-Ruzyně airport. Thanks to its attractiveness it has been included in the ČD tariff.

In the spring a completely new offer entitled "Kids on a Trip" ("Děti na výlet") was realised. School children groups were enabled to buy a return ticket from anywhere in the Czech Republic to Prague for a flat price of CZK 80. In addition, the attractiveness of this offer was supported by the inclusion of contractual partners. As such, a comprehensive package was created that offered a train ride and a whole-day programme with the educational focus in Prague for an advantageous price. In the autumn this offer was expanded to include Brno and Olomouc including the engagement of additional contractual partners.

The advantageous eLiška ticket underwent significant changes. Until 12 June 2010 the offer for this ticket only included travelling between regional cities in the Czech Republic for a flat price of CZK 160. With effect from 13 June 2010, the use of this ticket was expanded to 114 large towns in the Czech Republic. The holders of all types of the In-karta card were allowed to purchase the eLiška ticket. Newly the sale channels were expanded by the cash desks.

For passengers who are not In-karta holders we created a new product entitled SporoTiket. This product included tickets for distances between regional cities for an advantageous price that could be used on specific trains.

Throughout 2010 we offered a discount of free seat reservation for SC 72/73 trains on the Prague – Brno – Břeclav route.

Until 1 September 2010 students from Central Bohemia could take advantage of fares on credit that were settled by the Central Bohemian Region. On 1 September 2010, the settlements of fares by the Central Bohemian Region ended.

During 2010 the offering of České dráhy's Internet shop was significantly expanded. The sale of the SONE+ and ČDNet network tickets was launched. In addition, the offer was expanded by tickets for travelling by passenger trains and for travelling by multiple consecutive trains (ie when there is a necessity for the passengers to change trains). The train ticket portfolio was also enhanced by tickets for bicycles that are valid for 24 hours. These changes will make Internet shopping available to a wide range of additional customers who until now could not use Internet shopping due to the limited offer.

In the course of 2010 the ČD Kurýr service was negatively impacted by the interruption and subsequent cancellation (as of 12 December 2010) of transportation of live animals.

The ČD Bonus customer programme was expanded by new partners offering cultural and recreational opportunities.

INTERNATIONAL PRODUCTS

The international transportation offer was expanded by a wide range of significant cities in Slovakia through the discounted eTiket tickets that are available via ČD's eShop.

For the international CityStar ticket now additional significant price advantages were negotiated for the holders of the In-karta and Railplus cards travelling to Germany.

In 2010 the interest in the automobile trains travelling to Slovakia increased. There has been an ongoing increase in demand for trips to Poprad and Košice.

The eTiket Germany offer including the Prague – Dresden and Brno – Dresden tracks was expanded by an opportunity to purchase an additional railway network ticket in the authority area of the VVO transportation alliance (Verkehrsberbund Oberelbe). In particular, while purchasing tickets for the Praha – Dresden and Brno – Dresden destination via ČD's eShop, customers also have an opportunity to buy tickets that will enable additional travel after arriving at Dresden using trams, buses and other means of transport in the city and in the surrounding areas for a price that is more advantageous than in case of on-site purchases.

From 13 June to 11 December 2010 the eTiket Austria included an offer of return tickets for the Prague – Vienna night train.

SALES

ČD's sales activities were primarily focused on gaining new customers using both internal and external distribution channels.

For newly created products, such as transportation vouchers, distribution was ensured using non-traditional retailers including shopping chains (Kaufland, Lidl).

Standard products (In-karta) were used in addressing companies with offers for their employees. In December 2010 the In-karta portfolio was expanded. As such, corporate customers are enabled tailored offers pursuant to the frequency of their travels.

Another significant step in gaining clients will include the creation of a motivation programme for companies using the eShop in the first half of 2011.

Railway Infrastructure Operation

Railway transportation operation management and organisation performed on the railway infrastructure in the ownership of the Czech Republic is primarily provided by ČD's Department for the Management and Organisation of Railway Transportation Operations and all other organisational units of ČD in compliance with the vertical Product Line within operations management. As of 1 July 2008 the responsibility of the operator of both the national and regional infrastructure owned by the state was transferred from ČD to SŽDC, pursuant to Act 77/1997 Coll., as amended. Currently, the activity is carried out in compliance with the Contract on Railway Infrastructure Operation concluded between SŽDC and ČD. Based on the contract, ČD is appointed as the Provider of Railway Infrastructure Operation.

In 2010 positive results were attained both in the operating and economic areas. The results were achieved on a balanced basis without any material extraordinary events during the course of the year as follows:

- high-level and continuously sustainable fulfilment of the timetable – in 2010 the aggregate timetable was met at 90.4% (the average for the years 2006-2009 was 89.4%); timetable deviations caused by employees did not exceed 0.8%,
- balanced business results; and
- fulfilment to the maximum (and not exceeding) the contracted transportation volume (limit), hours worked and sales from railway operation performed for SŽDC pursuant to the Contract on Railway Operation; the contract was fulfilled at 98.9%.

While carrying out the railway operation activities, ČD's objective was to ensure regular maintenance and investments in the railway infrastructure and to minimise the impacts of work in progress on the fulfilment of the train timetable (GDV). ČD participated in international activities by leading the "Operating Rules" workgroup under the "E Corridor" project. In addition, ČD participated in the "ERA Control-Command & Signalling Support Group" and in the "TSI Operation Support Group".

As of 31 December 2010, the electronic train run evidence was used in 640 applications on a routine basis in 709 stations; the Graphic and Technological Extension was used in 274 applications of the 356 stations; and the railway transport diagram was fulfilled in 140 applications in 233 stations. The railway infrastructure operation activities are certified for the quality management under ISO 9001.

As a qualified, internationally engaged and experienced national railway company, in compliance with the technical development and the development of international standards, ČD participates in the creation and continuous improvement of technical, technological and legal regulations that enable SŽDC to successfully operate the national railway and regional railways owned by the Czech Republic. In addition, ČD supports liberal business of railway operators within the rail network.

Asset management

At the end of 2010 ČD administered 6,478 buildings, of which 1,191 were railway station buildings.

In ensuring services for the passengers, ČD's railway station buildings represent the most important immovable assets. In the past many buildings were in a critically bad condition. Given this, maintenance, repairs and renovation represent a material cost component.

Optimisation in the area of railway station buildings management is also related to systemic solutions for recovering the publically accessible areas.

Pursuant to the Railway Act, both railway stations and train stops are part of the railway system regardless of who the owner of the buildings is. As such, ČD is obligated to enable access to the publically accessible premises also to other transport companies in a non-discriminating manner. However, it is not vital that the accessibility and availability of the relevant premises or services is not covered. That is why ČD is seeking a method to charge for the accessibility of premises. In particular ČD is trying to find a fair method

for allocation of the administration, maintenance and cleaning costs related to the relevant premises, which would be made using the so-called railway station fee. With a view to the current needs and the services provided at individual railway stations, many railway station buildings have extensive redundant capacities. The size of the buildings is being optimised for the provision of transportation services as well as other commercial activities.

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

In 2010, 28 railway stations were renovated. The aggregate amount incurred on maintenance, repairs and investments was CZK 640 million according to CAS. For instance, the following railway stations were reconstructed: Hostivice, Český Brod, Lysá nad Labem, Všetaty, Klášterec nad Ohří, Sušice, Jablonec nad Nisou, Česká Třebová, Liberec, Hradec Králové – Slezské Předměstí, Olomouc main station, Holešov, Bojkovice, Jeseník, Šatov, Telč, Moravský Krumlov, Letovice, Znojmo and Nesovice.

In 2010 the lessee at Prague main station, Grandi Stazioni, completed the third phase of the renovation project that is divided into seven phases. The final construction quality-assurance approval for the last phase is anticipated in 2012. At the Prague main station both the ground floor and first floor area of the terminal were reconstructed (the Central and South sections). Adjustments were made in the commercial premises and the terminal was connected with the historic Fanta Cafe through an escalator.

As originally planned, renovation activities at Brno main station continued in 2010. In the course of 2010 preparations were made for the project and its implementation at Masaryk station in Prague. The first phase of the terminal renovation project was initiated in December 2010. Renovation projects were prepared by ČD in Karlovy Vary – horní nádraží and Ústí nad Labem stations in 2010. The contractual terms relating to České Budějovice station were modified based on which the sale of assets is planned. The funding generated from the sales will be used for the renovation of the railway station building. The same method will be applied for the Prague – Smíchov and Prague – Žižkov assets. In 2010 the contractual relations in respect of the remaining renovated locations were not concluded – they were either terminated, modified or they expired.

Other activities

EMPLOYMENT POLICY AND SOCIAL PROGRAMME

HR work focuses on the optimization of the staffing structure and the socially sensitive reduction of the headcount while maintaining the employment rate necessary for the effective functioning of the Company and providing services to the public.

The average reported headcount recalculated to full-time employees amounted to 26,992 from January to December 2010, which represents a decrease of 1,577 employees compared to the previous period (January to December 2009). As of 31 December 2010, the Company had 26,000 employees, which represents a decrease of 1,952 compared to 31 December 2009.

Personnel costs for the period from January to December 2010 amounted to CZK 13.1 billion, of which payroll costs amounted to CZK 9.5 billion. The average salary in 2010 amounted to CZK 27,319, which represents a 0.92% increase in the nominal salary and a 0.57% decrease in the actual salary compared to the previous year (with the consumer prices index of 101.5%).

Other personnel costs include severance to leaving employees that exceed the Labour Code requirements (severance pay according to the Collective Agreement of ČD and the costs of implementing the complementary social programme, pursuant to the Government Decree No. 370/2007 Coll.) totalling CZK 377 million.

In line with the legislation and in cooperation with the trade unions, a priority involved the monitoring of employees' medical fitness and the impact of performing their jobs on the employees' health. In 2010, 29,723 preventive medical examinations including 3,664 examinations prior to the start of a period of rehabilitation were completed. Six hundred and thirty-two examinations were completed as part of the preventive care at the workplace.

Apart from the healthcare and improving employees' social conditions, emphasis was also placed on increasing the quality of the work environment and improving workplace relations.

INTERNATIONAL RELATIONS

In 2010 ČD continued in its efforts to maximally enhance the efficiency of its international relations, principally with a view to the participation in international organisations. The level of participation continued to be limited in cases where ČD's activities did not unequivocally contribute to the creation of optimum conditions for integrating the Czech railway network to European networks or where the achieved results did not correspond to the funds incurred.

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

In the other renowned railway organisation, the International Union of Railways (UIC), ČD strived through its representatives in individual bodies to maximally increase this organisation's productivity while minimising the related expenses. In 2010, ČD strove to decrease its expenses involved in the participation in the UIC's activities. Participation in the UIC project resolution was revised. In this respect, ČD only participates in projects that are necessary in the view of the interoperability and inclusion of ČD in the European railway network or that would provide internal savings in resolving capacities.

In addition, ČD enhanced its role as the coordinator and administrator of the ČD Group's membership in the Organisation for Railway Cooperation (OSŽD). Through its representative at the OSŽD Committee, ČD made multiple comments on this organisation's new statutory documents. The purpose of these documents is to change OSŽD into a dynamic modern organisation that will reflect changes that arose within the Euro-Asian railway area over the last decade.

Regarding bilateral relationships with neighbouring railways (DB, ÖBB, PKP, ŽSR/ZSSK), in 2010 the "Agreement on Expiration of the Agreement from 1996 and additional forms of cooperation between ČD and PKP" was signed. This Agreement was replaced by individual standalone agreements concluded by the ČD Group with all relevant PKP subsidiaries.

In addition, in 2010 the "Agreement on Expiration of the Agreement on Cross-Border Railway Transportation between ČD and ŽSR" from 1997 was concluded and the "Cooperation Agreement" was proposed to be concluded between ČD, ČD Cargo and SŽDC on the Czech part with ŽSR, ZSSK and ZSSK Cargo on the Slovak part. The planned agreement defines forms of cooperation for future periods. After a longer time, ČD managed to renew the negotiations on a new cooperation agreement in the area of passenger transportation with the representatives of ÖBB Personenverkehr.

In 2010, ČD representatives participated in numerous important meetings of international railway organisations. They predominantly included the CER's annual meeting in Brussels (February), the conference entitled "The Future of European Rail" in Madrid (March), the UIC General Meeting in Tokyo (June), CER top management meetings, the InnoTrans fair in Berlin (September), and the UIC General Meeting held at the ocion of the UIC High-speed fair – for high-speed railway transportation – in Beijing (December).

MARKETING

In early 2010 the new ATAK 2010 business and marketing strategy was launched, which contains five horizontal and five vertical pillars for commercial marketing.

On the horizontal pillars the central initiatives (ČD Takt, ČD Relax, ČD Eurotrip, ČD Regio Takt and ČD IN) were supported by marketing campaigns focusing on the promotion of particular products and offers to increase sales. The communication mix of individual campaigns was planned to be as effective as possible according to the individual target groups and special attention was paid to address the existing and potential customers.

During the course of 2010 ČD participated in multiple trade fairs where it had its own representation stalls. At the end of September preparations were made in many Czech cities for the traditional celebrations of the Railroad Day. This event received most attention in Olomouc – the National Railway Day – with 16,000 visitors.

The Company's website, www.cd.cz, ranked third in the IEA contest that was focused on how companies use digital media to facilitate new business opportunities and better communication with their customers and employees. In addition, the website was awarded second place in the WEBTOP100 contest in the Transport section.

The process of applying new corporate colours has continuously proceeded. In 2010, on a gradual basis 85 locomotives and 342 wagons were newly painted.

Starting January 2010 a change in the magazine publishing concept was made with a focus on cost optimisation and savings. As a result, the issues "MOTION" and "Recepty z kupé" were cancelled and the SC Pendolino is now being issued on a quarterly basis. The "ČD pro vás" magazine now has a new layout and the magazine is distributed at ČD stations all over the Czech Republic on higher-quality trains in the aggregate number of 120,000 copies. On the other hand, ČD's advertising volume was increased, principally in the form of PR materials issued as inserts in the major Czech dailies (Právo, MF Dnes, HN, VLP).

ENVIRONMENTAL PROTECTION

In the area of environmental protection, ČD was actively focusing on effective legislation compliance review. The review of compliance with the legislation requirements and regulations including the implementation of current duties is ensured by the Department of Quality Assurance and Environmental Protection under the Rolling Stock Division.

ČD's environmental protection activities were primarily focused on the following:

- monitoring the aggregate volume of produced waste, decreasing the production of waste – especially hazardous waste, and paying special attention to waste separation;
- securing the obligatory system for the re-collection of specific used products, as defined by the Amendment to the Waste Management Act;
- securing an authorised emission measuring system and measuring the combustion efficiency of stationary sources of air pollution;
- monitoring drinking and sewage water with a view to water quality assurance and compliance with limits stipulated by legal regulations;
- dealing with leakage of hazardous substances into the bedrock and prevention activities;
- updating emergency plans for establishments where hazardous substances are handled and updating of simplified emergency plans for all railway stations in use;
- removing legacy environmental burdens and their impacts;
- maintenance of greenery and weed eradication; and
- training and informing on the status of environment.

Each year, the information relating to the environment is processed under ČD Environmental Audit that serves both for the internal needs of ČD's employees and as underlying documentation for reports to the local state administration authorities with respect to the individual environmental issues. The ČSN EN ISO 14001 norm – an environmental management system that specifies the system of managing and monitoring environmental impacts arising from the Company's operations – is focused on environmental protection and the prevention of pollution in compliance with the Company's social and economic needs. This system was successfully implemented and is audited every year at DKV Česká Třebová, PJ Liberec.

Under the "Environment" Operating Programme on 31 March 2010 ČD's application for a grant for removal of environmental burdens in the MO Brodek u Přerova area (administered by RSM Olomouc) was approved by the Minister of Environment (based on the recommendation of the Steering Committee of the Environment Operating Programme). This grant represents 90% of tax-deductable project costs. The anticipated amount of the aggregate project costs is approximately CZK 230 million according to CAS. In this respect, at the end of 2010 tenders for technical and legal advisory were realised. At present the underlying documentation under tenders for a supplier of reclamation work is being prepared.

RESEARCH AND DEVELOPMENT

In 2010 ČD participated in both national and international projects and as such, obtained funding for the investment activities and research projects relating to the operating issues. For instance, the Company made efforts to obtain a grant for equipping 600 tractive vehicles with GSM-R radio stations.

ČD makes efforts to obtain additional funding for the projects focusing on environmental burdens, repairs and insulation of railway station buildings and decreasing emissions. Separate attention is paid to the Regional Operating Programmes under which ČD applied for a total of CZK 2.5 billion for the purchase of regional transport vehicles accouting to CAS.

Apart from ČD's own projects, ČD has lately been involved in the preparation of applications filed together with other parties. For instance, this relates to renovation of the immediate surroundings at Pardubice railway station. The renovation project is anticipated to cost CZK 105 million according to CAS, 85% of which will be provided by the EU to the city of Pardubice. Another project is focused on the acquisition of information panels that will include standard information on public transportation in the Pilsen region. The grant is provided at 92.5% and the application is being filed by the Pilsen regional authority.

In addition, ČD actively participates in the UIC Research Coordination Group, particularly in the UIC workgroup that is active across the UIC forums. In cooperation with UNIFE, UIC defines topics for additional calls for projects under the "Seventh Framework Programme for Science and Technological Development". With regard to the interoperability issues, the

CER workgroups solve the implementation of TSI (technical interoperability specifications) by transportation companies in individual national environments.

INFORMATION TECHNOLOGY

The most significant investment in the area of ICT included an ongoing development of data warehouses (DTOP, P602, ADPV, and Product CO). Under these projects, the accurate allocation of costs and income is ensured by the controlling department. As high-quality and comprehensive data forms an integral part of data warehouses, automatic data collection was launched, hard-copy data recording was terminated, and electronic system data recording was initiated. The main portion of this activity was performed in the area of the trains documentation. In particular, the train is recorded to the so-called POPs (portable points of sale) before it departs and subsequently the information is sent to the central systems. In 2010 the Company's Board of Directors and Supervisory Board approved of a shift from the communication ensured using the POP application to the on-line communication. This will enable immediate availability of information on individual trains. Additional information systems will enhance the quality and simplify the work related to the preparation of the timetable graphic application through the use of a central database under the KASO application. In 2010 an analysis was performed with the focus on the transportation management related to the passenger transportation dispatching. Based on the analysis, the Board of Directors and the Supervisory Board approved the proposal to implement a new module for passenger transportation dispatching. The implementation thereof is planned for the coming years. The applications supporting the transportation management were adjusted in accordance with new EU legal regulations and TSI TAF (Telematic Aplications for Freight trains). In addition, changes are also made with regard to the information systems in train cars. In this respect automatic data loading and a unified interface is planned for the systems. The SAP BW data warehouse was implemented with a view to the maintenance of railway vehicles, in particular for the PM module. As such, efficient reporting will enable better management. In the area of real estate the implementation of the SAP RE Flexible application was initiated so the launch in 2011 is possible.

The quality of information is being enhanced for the passengers. The information is available on the Company's website, www.cd.cz, and includes, for instance, information on trains' current location, information on extraordinary events, travel recommendations and many others. In addition, the modernisation of cash desks and tickets is planned and is anticipated to use the thermo-print method. Initially, the new printers will be used at the international cash desks.

At the end of 2010 cooperation relating to ICT was launched among the individual subsidiaries of ČD. The coordination team is seeking joint projects aimed at the cost optimisation and sharing of experience in the cross-industrial fields.

Principal goals of 2011 include projects that have already been launched in the area of passenger transportation dispatching, the POP & on-line applications and ticket vending machines. Additional important steps include interconnecting the In-karta system with other integrated transportation systems. ČD also plans to gradually replace the information communicated using the hard-copy forms with the electronic information. In the area of infrastructure, the Company will focus on the concept for the operation and maintenance of terminals.

Investment Development of the Company

In 2010 ČD's acquisition of fixed assets amounted to CZK 6.7 billion excl. VAT according to CAS.

INVESTMENTS IN ROLLING STOCK

ČD initiated a wide-scale process of modernisation of the rolling stock. The Company concluded contracts for the modernisation of existing vehicles and for supplies of new train units with eight suppliers in the aggregate amount of CZK 9.9 billion.

Investment funding is provided using various forms, such as leases, bank loans, or bonds and also funding provided by the European Union under the Regional Operating Programmes – specifically for the purchase of regional train units. As part of programme no. 127 630 for the acquisition and modernisation of rolling stock, the support provided by the Ministry of Transport in 2010 amounted to CZK 99.8 million. This support was partially used to finance the acquisition of the CityElefant train set no. 471.059.

Modernisation is focused on all ČD's passenger transportation segments, that is, both regional and long-distance transportation. Compared to the past, a significant change was made in the differentiation of sup-

pliers. The largest contract that comprises 23% of all contracts has been concluded for the modernisation and lease of 58 cars for the EuroCity and InterCity trains with the Slovak company ŽOS Trnava. The second largest partner is Stadler Pankow with contracts in the amount of CZK 1.8 billion and the share of 18%. Additional suppliers include Škoda Transportation, Škoda Vagonka and Pars nova. In 2010 eight suppliers were successful in concluding contracts with the Company.

Principally ČD focused on the modernisation of regional trains that are used for day-to-day travels to work or schools by tens of thousands of passengers all over the country. The most significant acquisition includes the purchase of the RegioShuttle RS 1 diesel cars from Stadler for the Vysočina and Liberec regions.

A very significant transportation segment that did not receive much of an attention in the past is long-distance transportation. In 2010 ČD concluded a contract with ŽOS Trnava for the modernisation of 58 passenger cars of the first and second class of the EuroCity and InterCity trains and with ŽOS Vrútky for the modernisation of 21 restaurant cars. In addition, renovation of 110 cars for the regular fast trains was initiated by JANOZA CZ. Some of the first renovated cars are already being put into use as part of fast trains.

In addition, ČD made investments in low-value modernisation and renovation activities as part of the regular maintenance of the rolling stock of almost CZK 360 million. The most significant investments included heating system renovation, additional electrical equipment, speed enhancement of some traction vehicles, modernisation of traction circuits, etc, mainly focusing on increasing the level of the travel culture and safety.

CONSTRUCTION INVESTMENTS

Another very important part of ČD's investment activities is represented by the construction activities. In 2010 renovation of a wide range of station buildings was completed. For instance, this included the following railway stations: Lysá nad Labem, Český Brod, Jablonec nad Nisou, Česká Třebová, Olomouc, Jeseník, Bojkovice, Holešov, Hostivice, Letovice, Moravský Krumlov, and Telč. Important completed structures include the renovated dormitory building in Břeclav. Construction work in progress principally includes renovation of the station buildings at the following stations: Žďár nad Sázavou, Ostrava main station, Poříčany, Liberec, Česká Skalice, and Týniště nad Orlicí. In order to enhance the travel culture, railway station restaurants were renovated in Poděbrady, Liberec and Holešov.

In respect to the volume of funding to ensure day-to-day maintenance of passenger train cars, the most significant investments included the completion of the construction of a utility track in Benešov and Děčín, completion of the installation of the heating equipment in Bohumín and Olomouc and a stationary washing track in Pilsen. In addition, the construction of a utility track was initiated in Kralupy nad Vltavou and Beroun and track renovation began at the Prague-South railway yard. In total, modernisation and renovation of immovable assets in 2010 amounted to CZK 590 million according to CAS.

OTHER INVESTMENTS

ČD made investments in additional areas of business. Almost CZK 200 million was invested in the information technology assets, work safety and health protection, improvement of social conditions for employees, low-value mechanical equipment in railway vehicle yards, and others.

Strategic Company Development

Board of Directors approved ČD's new strategic goals. The need to define the explicit strategic aims was based on the necessity to set a trend for the Company that will be in line with the conditions of a dynamic market and economy and that will take into the account the competitive companies entering the railway market.

In addition, the existence of the strategic document is essential for a clear focus and definition of the Company that will ensure that the structure of the service portfolio, resources and means for attaining the goals will be in line with the Company's clear-cut vision. The implementation of the strategic goals into ČD's structure will be of the primary importance in determining the Company's operations in 2011.

The particular strategic goals are structured into five fundamental areas. Each of the goals has its indisputable impact on České dráhy's future success. Commitment from all employees is needed in order to achieve the set goals.

1. CUSTOMER FOCUS

On the long-term basis, ČD will strive to rank among the best passenger transportation providers with a view to the quality and customer satisfaction. Rather than an alone offering of passenger and goods transportation services, ČD will make an effort to provide solutions that are maximally tailored to the customers' needs:

- comprehensive transportation service solutions, optimisation of sales channels, and price optimisation;
- continuous adjustments to the provided services portfolio according to the customers' needs (contractors, passengers); and
- internationalisation – alliances with the international partners that will ensure an offer of competitive international passenger transportation.

2. CORPORATE/SYSTEM STABILITY

ČD must not be perceived as a subsidised company. The Company must receive full payments for the public interest services under contracts placed by the state and regional authorities:

- influence on the sustainable profitability and the indebtedness rate;
- creation of a new strategy for the use of the railway stations and introducing a "railway station fee" for the use of the railway stations; and
- need to complete restructuring.

3. ROLLING STOCK MODERNISATION

The precondition for full-value competitive services is to invest in the modernisation of the rolling stock. All new acquired vehicles must comply with the strategy of passenger transportation (vehicle deployment plan) and a long-term maintenance plan must be prepared for the vehicles. Modernisation of rolling stock is inseparably related to the railway yard process optimisation.

4. GOVERNANCE

Business principles will make ČD stronger and will ensure the differentiation of responsibilities; clearly set rules should stipulate relations among various subjects within the Czech railway system. Managerial leadership principles will be based on a clearly defined framework of rules for the corporate governance and compliance. The importance of the risk management that is closely related to the principles of the strategic reporting will be enhanced.

5. INTEGRATION

The group concept anticipates the existence of subsidiaries with the core business related to the railway and the maximum usage of synergies all across the campany. Corporate rules and policies will be used by the subsidiaries to the maximum; selected activities will be provided centrally by the parent company (based on the condition of the functioning model of internal group services).

Subsidiaries

ČD is a controlling entity with the actual influence on the management of its subsidiaries through the shareholder rights without controlling agreements. The influence over the management of the controlled entities arises from the majority ownership. The administration of ČD's subsidiaries and equity investments is ensured by the Department of Equity Investment Administration that is directly managed by the Company's CEO.

As of 31 December 2010, ČD's equity investments portfolio included a total of 25 companies. In 12 subsidiaries, the Company's equity investments exceeded 50% and ČD was the sole shareholder in four of them (ČD Cargo, a.s., Dopravní vzdělávací institut, a.s., DPOV, a.s., and Výzkumný Ústav Železniční, a.s.). No ČD Group company shares are publicly tradable on the securities market. The transferability of shares or equity investments is limited by the Articles of Association, or the Memorandum of Association. Three of the companies adopted a German management model. The other companies follow the Anglo-Saxon management model.

The optimisation process of the ČD Group's structure that includes subsidiaries that do not participate in ČD's principal business activities was initiated in 2009. As such, based on a tender, 51.01% of shares of Traťová strojní společnost, a.s. held by ČD were transferred to the succeeding holder, Ostravské opravny a strojírny, s.r.o. as of 18 August 2010. Another change in ČD's equity investment portfolio included the completion of transferring an equity investment of 20% held in ČD Restaurant, a.s., from ČD Reality, a.s. as of 23 April 2010.

The process of optimising the control relationships, as part of the ČD Group, actively continued throughout 2010. In particular, adjustments were made to the wording of the Articles of Association and the contracts for the fulfilment of duties by members of the subsidiaries' bodies were unified. Furthermore, ČD's representatives actively participated in the bodies of subsidiaries in due collaboration with the Department of Equity Investment Administration. The priority goal in 2010 was to revise the relations with the Company's most significant subsidiary – ČD Cargo, a.s. – where significant staffing changes were initiated.

RULES AND PRINCIPLES SUPPORTING SYNERGIES WITHIN THE ČD GROUP

Under ČD's transformation programme VIZE 2012 and the "Completion of the Transition to a Group Structure" the rules and principles are gradually being defined that support the synergies among individual ČD Group entities.

Common rules for the individual functional areas that are approved through the resolutions passed by the Board of Directors of České dráhy, a.s. are part of this project and the results of it. In accordance with these rules coming into the effect, the relevant guarantors started their activities under the relevant provisions of these documents, which, among other things, included appointing individual authorised persons, establishing work teams, coordinating multiple future plans, initiating work related to common proceedings in individual areas, etc. The guarantors for individual common rules are specialised expert divisions of ČD's General Directorate. The guarantors' activities focus on the preparation of individual common strategies for individual professional areas across the ČD Group, thanks to which the savings are realised based on the sharing activities and synergic effects.

CONSOLIDATED ČD GROUP

The consolidated ČD Group is defined by the ČD CEO's decision and consists of České dráhy, a.s. (parent company), ČD Cargo, a.s. (subsidiary), DPOV, a.s. (subsidiary), Výzkumný Ústav Železniční, a.s. (subsidiary), ČD - Telematika a.s. (subsidiary), and JLV, a.s. (associate). Prior to the transfer of an equity investment the consolidated ČD Group also included Traťová strojní společnost, a.s. (subsidiary). IFRS were implemented throughout the consolidated ČD Group.

ČD CARGO, A.S.

ČD Cargo, a.s. was formed on 1 December 2007 by making a contribution of part of the business of ČD. Its main area of operation is the operation of railway freight transport. The company is the leader on the domestic market of bulk material transport, predominantly solid fuels and iron ores. Within the EU it ranks among the top five operators.

To operate freight trains, ČD Cargo, a.s. has 974 lokomotives and more than 26 thousand freight wagons. Its rolling stock is expanded to include rented wagons as required.

In 2010 the business results of ČD Cargo, a.s. were significantly influenced by the ending global economic crisis which was demonstrated by a slight decrease in the transportation volume of the most commodity groups. On an ongoing basis, major transfer commodities include metallurgy products and coal. Stable results with a slight increase in the transportation volume were achieved in the combined transportation.

The investment activities of ČD Cargo, a.s. in 2010 were limited to the activities that ensured the organisation's functioning. In 2010 the aggregate investment volume amounted to CZK 1.7 billion according to CAS (including comprehensive accounting records related to the material renovation of assets in the amount of CZK 507 million). The investments principally included the renovation and modernisation of rolling stock, machinery, structures, and other investments.

In 2010 the company underwent extensive staffing changes that led to the company's stabilisation. An extensive restructuring process was initiated on all management levels. From the strategic point of view, in the following year the company will principally focus on the provision of transportation services with an added value including new types of logistic services, increasing the yield ratio in the Czech Republic and on its territorial development.

DPOV, A.S.

DPOV, a.s. is engaged in the maintenance, repairs and modernisation of rolling stock. Its production programme predominantly includes repairs of higher degree of most series of locomotives and diesel railcars operating on the Czech railway routes. Furthermore, the production programme includes repairs of individual spare parts and technological units, such as gears, combustion engines, wheel sets, etc. DPOV, a.s. provides surface treatment of rail vehicle bodies for both repair and advertising purposes. The investment priority is equipping the company with new strategic technologies and an increase in the capacities of individual workplaces. The sole shareholder requires that DPOV, a.s. focuses on modern vehicles newly put into use – in particular the high-speed 680 Pendolino train sets, the 471 CityElefant suburban double-decker electric train sets, and diesel train sets of the 814 Regionova series.

In 2010 significant investments were made in the expansion and modernisation of the wheel production factory and the general reconstruction

of the roundhouse in Nymburk in which, among other things, the undercarriages for the type 680 units are repaired. On 21 December 2010 a new production hall was opened in Přerov that is intended for the repairs of the type 471 train sets.

In 2010 despite the funding being used for the investment programmes, the company's business results ended with a profit.

VÝZKUMNÝ ÚSTAV ŽELEZNIČNÍ, A.S.

Výzkumný Ústav Železniční, a.s. (VUZ) specialises in professional services and comprehensive solutions in the area of assessments, testing, and advisory related to the railway systems and railway transportation. The company provides numerous accredited tests. These include tests of the cars' driving, dynamic and traction features, tests of security devices, electromagnetic compatibility tests, noise tests, etc. In addition, VUZ is engaged in assessing elements of the interoperability and verification of sub-systems with technical requirements for interoperating railway system in all of its principal areas – infrastructure, energy, management and security and rail vehicles.

As part of the extensive investment initiative – the modernisation of the VUZ Velim test centre – the modernisation of the traction wiring of the large testing circuit was completed in August 2010. For the project entitled "Modernisation of the traction power station for the testing centre" that was completed in 2009, the company received the annual prize awarded by the Association of the Czech Railway Industry (ACRI) in the Infrastructure section. In the course of 2010 the VUZ Training Centre was opened as part of the VUZ Testing Centre in Velim. The Training Centre will focus on railway interoperability.

The economic and financial indicators set out by the business plan were fulfilled and for 2010 the company generated profit.

ČD - TELEMATIKA A.S.

The company provides comprehensive communication, telematic and ICT solutions and services. Apart from ČD, its significant customers include a number of telecommunications operators, including the CESNET academic network operator, state administration bodies and other significant companies with decentralised management.

As a response to the legislative development, the company's shareholder, České dráhy, a.s., initiated the calling of the company's extraordinary General Meeting. On 27 August 2010, the General Meeting decided on a change in the company's shares from bearer shares to registered shares.

In 2010 the company generated profit. The company decided not to pay out dividends instead it used the profit to cover losses brought forward.

JLV, A.S.

JLV, a.s. (formerly Jídelní a lůžkové vozy, a.s.) provides ČD customers with catering services and operates special railway cars. The Company also operates outside the railway sector.

In 2010 significant events included implementation of the "New Gastronomy" project which represents enhancement of the catering services in ČD's long-distance trains.

For 2010 the company generated profit from its business activities.



Praha
hlavní
nádraží






Ecological Friendly and Economical Way

We know that in today's world it's not only about finding the economic solutions. Protecting the environment is becoming more and more important, and in that respect, the railway has a head start.

Just For The Feeling / 15 May 2010

"Perhaps you know the feeling. Sometimes I consider whether I should take the train or go by car. But lately I have opted for the train. I'm not quite sure why. Maybe just for the feeling that I'm choosing a better way."

Photograph by / passenger of ČD **David Lasovský**


Praha
hlavní
nádraží

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

Report on the Financial Statements

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

Based upon our audit, we issued the following audit report dated 15 April 2011 on the financial statements which are included in this annual report on pages 177 to 215:

"We have audited the accompanying financial statements of České dráhy, a.s., which comprise the balance sheet as of 31 December 2010, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

STATUTORY BODY'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of České dráhy, a.s. as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

Report on the Financial Statements

(in accordance with International Financial Reporting Standards)

Based upon our audit, we issued the following audit report dated 15 April 2011 on the financial statements which are included in this annual report on pages 113 to 175:

"We have audited the accompanying financial statements of České dráhy, a.s., 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 financial statements give a true and fair view of the financial position of České dráhy, a.s. as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU."

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 15 April 2011 on the financial statements which are included in this annual report on pages 49 to 111 :

"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."

Report on the Related Party Transactions

We have also reviewed the factual accuracy of the information included in the related party transactions report of České dráhy, a.s. for the year ended 31 December 2010 which is included in this annual report on pages 217 to 221. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of České dráhy, a.s. for the year ended 31 December 2010 contains material factual misstatements.

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

Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2010 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

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

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

IN PRAGUE ON 24 MAY 2011

AUDIT FIRM:

DELOITTE AUDIT S.R.O.
CERTIFICATE NO. 79

Deloitte

STATUTORY AUDITOR:

VÁCLAV LOUBEK
CERTIFICATE NO. 2037


Praha
hlavní
nádraží

Consolidated Financial Statements

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

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THESE CONSOLIDATED FINANCIAL STATEMENTS WERE PREPARED ON 15 APRIL 2011.

STATUTORY BODY OF THE REPORTING ENTITY:

PETR ŽALUDA,
CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

Statement of financial position (balance sheet) as of 31 December 2010

		31 Dec 2010	31 Dec 2009	31 Dec 2008
		CZK thousand	CZK thousand*)	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	1,006
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	Year ended 31 Dec 2009
		CZK thousand	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**
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

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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:

Authorities of the December 31, 2010		
	Features	Name
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.

Authorities of the December 31, 2010		
	Features	Name
BOARD OF DIRECTORS	Chairman	Petr Žaluda
	Member	Antonín Blažek
	Member	Michal Nebeský
	Member	Jiří Kolář
	Member	Milan Matzenauer

Authorities of the December 31, 2010		
	Features	Name
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.

Authorities of the December 31, 2010		
	Features	Name
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.

Authorities of the December 31, 2010		
	Features	Name
RISK MANAGEMENT COMMITTEE	Chairman	Petr Vohralík
	Member	Michal Nebeský
	Member	Jaroslav Král
	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 recognizes 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	Provisi-ons	Leases	Receivables	Derivati-ves	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	-1,692	-34	-220	-1,111	-416	-2,204	-5,677
Other income and expenses	238	-4	6	-302	278	-142	74
Overhead costs – financial and other	145	46	12	0	-203	0	0
Profit (loss) for the period from continuing operations	**-8**	**0**	**17**	**-427**	**-183**	**-437**	**-1,038**
Profit (loss) for the period from discontinued operations	0	0	0	0	307	-209	98
Profit (loss) for the period	**-8**	**0**	**17**	**-427**	**124**	**-646**	**-940**
Profit (loss) attributable to non-controlling interests	0	0	0	0	0	2	2
Profit (loss) attributable to owners of the parent company	**-8**	**0**	**17**	**-427**	**124**	**-648**	**-942**

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

(CZK million)							
2009	**Passenger transportation**	**Management of operations**	**Administration of assets**	**Freight transportation**	**Other**	**Elimination and reconciliation *)**	**Total**
Revenue from principal operations							
Revenue from passenger transportation	6,525	0	0	0	0	100	6,625
Revenue from securing railway routes	0	5,320	0	0	0	0	5,320
Payments from orderers	12,360	0	0	0	0	0	12,360
Other	102	66	3	13,244	33	-637	12,811
	18,987	**5,386**	**3**	**13,244**	**33**	**-537**	**37,116**
Purchased consumables and services							
Traction costs	-2,710	0	0	-1,639	0	75	-4,274
Payment for the use of the railway route	-1,419	0	0	-2,561	0	-48	-4,028
Other purchased consumables and services	-6,053	-314	-586	-3,498	-2,728	4,757	-8,422
	-10,182	**-314**	**-586**	**-7,698**	**-2,728**	**4,784**	**-16,724**
Staff costs							
Payroll costs	-5,603	-3,485	-242	-3,562	-1,386	616	-13,662
Social security and health insurance	-1,791	-1,118	-79	-1,090	-421	110	-4,389
Statutory social costs	-36	-36	-3	-210	-46	-380	-711
Statutory social costs - benefits arising from the collective agreement	-226	-144	-8	-5	-21	153	-251
	-7,656	**-4,783**	**-332**	**-4,867**	**-1,874**	**499**	**-19,013**
Other operating income and expenses	989	-5	880	414	3,897	-3,569	2,606
Intracompany income and expenses	-110	-58	191	0	-23	0	0
Overhead costs – operating	-962	-272	-54	0	1,288	0	0
Depreciation and amortisation	-1,792	-13	-219	-1,076	-569	-3,033	-6,702
Other income and expenses	25	-3	22	-445	-151	607	55
Overhead costs – financial and other	-145	-48	-12	0	205	0	0
Profit (loss) for the period from continuing operations	**-846**	**-110**	**-107**	**-428**	**78**	**-1,249**	**-2,662**
Profit (loss) for the period from discontinued operations	0	0	0		13	82	95
Profit (loss) for the period	**-846**	**-110**	**-107**	**-428**	**91**	**-1,167**	**-2,567**
Profit (loss) attributable to non-controlling interests	0	0	0	0	0	49	49
Profit (loss) attributable to owners of the parent company	**-846**	**-110**	**-107**	**-428**	**91**	**-1,216**	**-2,616**

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

14.3. Information on Principal Customers

The Parent Company was formed pursuant to, and its operations are governed by, general legal regulations governing joint stock companies and the Transformation Act (Act No. 77/2002 Coll.). The Transformation Act, inter alia, sets out the scope of the Company's assets and its role in operating railway routes and rendering transportation services in the public interest.

The Parent Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation from the orderer (the State) is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. On 2 December 2009, the Parent Company concluded the Contract for Public Service Commitments for the period from 2010 to 2019 with the State.

At the financial statements date, the Parent Company entered into contracts for public service commitments with all regions, or signed amendments to the existing contracts. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of ten years or more, ie before 3 December 2009. Similarly as the contract with the State, they are governed by legal regulations that were in effect before the Regulation entered into effect.

A significant change in funding the regional transportation related to the fact that the regions and the State agreed on the additional funding of the regional railway transportation for 2009 in the total amount of CZK 3.2 billion. Before Governmental Resolution No. 686/2009 dated 1 June 2009 was adopted, the ordered regional railway transportation was not additionally funded in that approximate amount. Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years.

ČD Cargo, a.s. provides its services to a significant number of business partners. The most important local customers in terms of the sales volume include AWT SPEDI-TRANS, s.r.o., ČEZ, a.s., CARBOSPED, spol. s r.o., MORAVIA STEEL a.s., NH TRANS SE, ČD Logistics a.s. Principal foreign customers are A.P. Möller, AWT Hungary Kft, Gefco SA, ČD generalvertretung GmbH, Express Slovakia "Mezinárodná preprava a.s.", and principal foreign railway customers are DB Schenker Rail Deutschland AG, Železničná spoločnost´ Cargo Slovakia, a.s., Rail Cargo Austria AG and PKP Cargo S.A.

15. Discontinued Operations and Assets Held for Sale

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

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	-21,293	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**

(CZK '000)	18 Aug 2010	31 Dec 2009
Trade payables	145,361	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.

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	6,352,399	6,296,838	6,225,981
Buildings	10,054,505	9,986,912	10,025,587
Individual movable assets	36,373,179	39,549,061	44,136,691
■ Machinery, equipment, and furniture and fixtures	1,368,255	1,275,251	1,191,025
■ Vehicles	30,845,617	32,409,535	35,181,759
■ Vehicles acquired under finance leases	4,124,529	5,837,666	7,697,595
■ Other	34,778	26,609	66,312
Other assets	6,598	5,575	27,708
Assets under construction	1,302,469	1,494,397	1,669,805
Prepayments	2,065,470	1,941,371	3,259,060
Total	**56,154,620**	**59,274,154**	**65,344,832**

Principal additions in the years ended 31 December 2009 and 2008 include the acquisition of railway vehicles as part of the renewal of the Parent Company's rolling stock.

In 2010, the Group acquired non-current assets financed through government grants in the amount of CZK 104,914 thousand. The cost of the assets was reduced by the amount of the grant.

16.1. Impairment Losses Recognised in the Reporting Period

Vehicles predominantly include railway vehicles (locomotives, wagons, other railway vehicles) used for operating railway transportation. Pursuant to the inventory count and analyses, items of assets were identified for which there is a significant doubt about their future usability. The Group recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell. The principal impairment loss as of 31 December 2010, 2009 and 2008 is the loss on the 680 series tilting trains (Pendolino) amounting to CZK 960,342 thousand, CZK 1,154,680 thousand and CZK 1,433,000 thousand, respectively.

Impairment losses are included in other operating expenses in the income statement.

The following useful lives were used in the calculation of depreciation:

	Number of years
Buildings	30 – 50
Structures	20 – 50
Locomotives	20 – 30
Passenger coaches	20 – 30
Wagons	25 – 33
Machinery and equipment	8 – 20
Optical fibres	35

16.2. Assets Pledged as Collateral

The Parent Company holds assets at the net book value of CZK 3,595,799 thousand that were pledged as collateral, of which train sets of the 471 series amounted to CZK 2,502,260 thousand, the Ampz passenger coaches amounted to CZK 461,643 thousand and the Bmz passenger coaches amounted to CZK 631,896 thousand. The pledge was established in favour of EUROFIMA.

17. Investment Property

Set out below is an analysis of investment property:

(CZK '000)	2010	2009
Balance at the beginning of the year	**2,204,523**	**2,271,001**
Additions from subsequent capitalised expenses	99,823	13,530
Disposals	-13,416	0
Disposals, annual depreciation	-68,763	-44,297
Transfers from property, plant and equipment (from IAS 16 to IAS 40)	448,124	3,177
Transfers to property, plant and equipment (from IAS 40 to IAS 16)	-468,968	-47
Transfers to assets held for sale (from IAS 40 to IFRS 5)	-93,979	-38,849
Change in the value	-239	8
Transfers of assets held for sale (from IFRS 5 to IAS 40)	-6,665	0
Balance at the end of the year	**2,100,440**	**2,204,523**

(CZK '000)	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Cost	**2,936,323**	**2,893,707**	**3,153,314**
Accumulated depreciation	-663,580	-687,449	-1,049,795
Impairment	-1,742	-1,735	-3,079
Net book value	**2,271,001**	**2,204,523**	**2,100,440**

The Group includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Parent Company used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2010, 2009 and 2008 is CZK 3,493,240 thousand, CZK 3,168,633 thousand and CZK 3,195,526 thousand, respectively.

The Parent Company determines the depreciation method and useful lives of investment property on the same basis as for property included in property, plant and equipment.

18. Intangible Assets

(CZK '000) Cost	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Development costs	104,038	0	166	0	103,872	0	7,615	0	96,257
Software	1,714,753	68,383	85,598	-170,554	1,526,984	198,361	135,618	-81,513	1,508,214
Valuable rights	217,183	95,000	8,327	168,664	472,520	55,077	607	40,738	567,728
Other assets	2,223	241	0	-440	2,024	525	1,191	0	1,358
Assets under construction	114,384	301,042	0	-231,634	183,792	206,845	0	-227,216	163,421
Prepayments	7,224	16,644	23,868	0	0	170	170	0	0
Total	**2,159,805**	**481,310**	**117,959**	**-233,964**	**2,289,192**	**460,978**	**145,201**	**-267,991**	**2,336,978**

(CZK '000) Accumulated amortisation	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Development costs	102,427	565	166	0	102,826	525	7,614	0	95,737
Software	1,032,481	257,981	51,384	-28,251	1,210,827	242,169	135,106	-24,716	1,293,174
Valuable rights	184,442	39,543	7,706	28,251	244,530	70,566	126	24,716	339,686
Other assets	1,593	292	0	0	1,885	150	1,192	0	843
Assets under construction	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0
Total	**1,320,943**	**298,381**	**59,257**	**0**	**1,560,068**	**313,410**	**144,038**	**0**	**1,729,440**

(CZK '000) Impairment	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec 2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Software	38,468	0	38,468	0	0	0	0	0	0
Total	**38,468**	**0**	**38,468**	**0**	**0**	**0**	**0**	**0**	**0**

(CZK '000) Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Development costs	1,611	1,046	520
Software	643,804	316,157	215,040
Valuable rights	32,741	227,990	228,042
Other assets	630	139	515
Assets under construction	114,384	183,792	163,421
Prepayments	7,224	0	0
Total	**800,394**	**729,124**	**607,538**

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

Intangible fixed assets include software ARES, In-card, UNIPOK, IS OPT, ISOŘ and items related to the SAP R/3 accounting software and its modules.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure relating to the SAP R/3, ISOŘ, IS-PRM, IS-ADPV, In-cards, and IS-KADR software modules.

19. Investments in Associates

(CZK '000)					
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 2010**
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)			Past due date (days)						
	Category	Before due date	1 - 30 days	31 - 90	91 - 180	181 - 365	365 and more	Total past due date	Total
31 Dec 2010	Gross	3,168,138	148,889	58,959	14,379	33,097	212,642	467,966	3,636,104
	Allowances	-3,097	0	-1,797	-959	-7,891	-127,390	-138,037	-141,134
	Net	**3,165,041**	**148,889**	**57,162**	**13,420**	**25,206**	**85,252**	**329,929**	**3,494,970**
31 Dec 2009	Gross	3,447,465	137,523	54,458	68,286	66,373	183,730	510,370	3,957,835
	Allowances	-611	-38	-30,276	-12,716	-28,943	-101,030	-173,003	-173,614
	Net	**3,446,854**	**137,485**	**24,182**	**55,570**	**37,430**	**82,700**	**337,367**	**3,784,221**
31 Dec 2008	Gross	4,962,941	158,942	61,022	54,650	76,268	73,588	424,470	5,387,411
	Allowances	-594	0	-26	-8,283	-45,589	-66,599	-120,497	-121,091
	Net	**4,962,347**	**158,942**	**60,996**	**46,367**	**30,679**	**6,989**	**303,973**	**5,266,320**

Receivables which are past their due dates by more than 181 days and are not provisioned consist primarily of receivables of ČD Cargo, a. s. from foreign railway companies which are not treated as distressed receivables.

21.2. Movements in Allowances for Doubtful Receivables

(CZK '000)	2010	2009
Balance at the beginning of the year	**173,614**	**121,091**
Recognition of allowances	309,306	125,390
Use of allowances	-341,786	-72,867
Balance at the end of the year	**141,134**	**173,614**

22. Other Financial Assets

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Financial assets available for sale	406,509	376,217	381,150
Receivables from finance leases	120,713	114,149	117,615
Hedging derivatives	42,793	0	0
Other	56,556	26,177	35,641
Total non-current financial assets	**626,571**	**516,543**	**534,406**
Receivables from finance leases	-6,658	3,466	193
Hedging derivatives	15,497	0	0
Other	218,718	83,911	71,068
Total current financial assets	**227,557**	**87,377**	**71,261**
Total	**854,128**	**603,920**	**605,667**

22.1. Receivables from Finance Leases

The Parent Company has leased the station buildings at the Brno - hlavní nádraží and Prague – Dejvice stations under finance leases.

(CZK '000)	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2010	31 Dec 2009	31 Dec 2008
Under 1 year	3,707	13,921	10,868	-6,658	3,466	193
From 1 to 5 years	24,823	14,561	18,011	-25,137	-32,551	-26,366
5 years and more	456,402	470,331	480,803	145,850	146,700	143,981
Total	**484,932**	**498,813**	**509,682**	**114,055**	**117,615**	**117,808**
Less: unrealised financial income	-370,877	-381,198	-391,874			
Present value of receivables of minimum lease payments	114,055	117,615	117,808	114,055	117,615	117,808
In the statement of financial position as:						
■ Other current financial assets				-6,658	3,466	193
■ Other non-current financial assets				120,713	114,149	117,615
Total				**114,055**	**117,615**	**117,808**

The fair value of receivables from finance leases approximates their carrying amount. Negative values in certain lines of the table indicate that lease payments in the period are lower than unrealised financial income, hence the present value of the minimum lease payments increases in this period.

23. Other Assets

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total non-current assets	**184,529**	**232,827**	**46,331**
Prepayments made	195,513	205,545	147,760
Tax receivables (except for the corporate income tax)	362,518	308,089	424,500
Prepaid expenses	152,496	120,172	109,663
Other	74,064	102,948	314,079
Total current assets	**784,591**	**736,754**	**996,002**
Total	**969,120**	**969,581**	**1,042,333**

24. Equity

24.1. Share Capital

The Parent Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

24.2. Reserve and Other Funds

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Share premium	16,439,605	16,439,853	16,439,853
Statutory reserve fund	182,030	184,523	33,343
Cash flow hedging reserve	-51,533	-604,780	-1,009,465
Other	571	1,046	3,057
Non-controlling interests	-3,043	-12,556	-10,121
Total	**16,567,630**	**16,008,086**	**15,456,667**

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

24.2.1. Cash Flow Hedging Reserve

(CZK '000)	2010	2009
Balance at the beginning of the year	**-604,780**	**-1,009,465**
Profit from revaluation	264,472	116,552
Accrual of the cost	9,127	-60,829
Reclassifications to profit or loss upon settlement	386,878	463,258
Total change in the cash flow hedging reserve	**660,477**	**518,981**
Relating income tax	-107,230	-114,296
Balance at the year-end	**-51,533**	**-604,780**

The cash flow hedging reserve includes accumulated gains and losses from the effective hedging of cash flows. The accumulated accrued profit or loss from hedging derivatives is reclassified to the profit or loss only if the hedging transaction impacts the profit or loss or is included as an adjustment to the base in the hedged non-financial item in accordance with relevant accounting principles.

Gains and losses reclassified during the year from equity are included under 'Other gains' in the income statement.

25. Loans and Borrowings

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Short-term bank loans	256,798	271,195	275,960
Short-term issued bills of exchange	2,877,117	1,013,500	0
Payables from finance leases	767,719	668,295	520,517
Overdraft accounts	2,136,140	32,783	1,648,758
Other received short-term loans and borrowings	6,792	0	0
Total short-term	**6,044,566**	**1,985,773**	**2,445,235**
Payable to EUROFIMA	4,134,850	4,366,672	4,443,396
Issued bonds	1,982,412	1,970,899	0
Other – received loans and borrowings – long-term	13,522	17,541	0
Loan from ČSOB – long-term	770,392	1,084,780	1,379,800
Payables from finance leases	5,565,909	4,242,098	3,236,217
Total long-term	**12,467,085**	**11,681,990**	**9,059,413**
Total	**18,511,651**	**13,667,763**	**11,504,648**

In the financial statements for the year ended 31 December 2009, the Group incorrectly presented short-term bills of exchange of CZK 1,013,500 thousand as long-term bills of exchange. For this reason, the comparative information as of 31 December 2009 was adjusted, short-term loans and borrowings are increased by the stated amount and long-term loans and borrowings are decreased by the stated amount.
Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

In 2004, the Parent Company received a long-term loan from EUROFIMA to finance the purchase of railway vehicles. This loan was increased in the year ended 31 December 2006 by EUR 30 million and by another EUR 30 million in the year ended 31 December 2007. This loan is collateralised by a state guarantee and its interest rate is determined based on the Pribor/Euribor reference rate plus a usual market markup. The amount of capitalised interest on the loan from EUROFIMA for the years ended 31 December 2010 and 2009 was CZK 10,255 thousand and CZK 23,399 thousand, respectively. The maturity of the loan is 10 years for each individual tranche.

The Parent Company issued bonds with three-year maturity and fixed coupon of 5% p.a., repayable annually, on 14 December 2009. The issue amounted to CZK 2 billion. The issue was not listed and was intended for private investors. The principal manager of the issue was ČSOB. The issue rate as of the issue date was 98.38%.

The Parent Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium include Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag. The loan has been provided to finance the renovation of the Parent Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. The interest rate of the loan is determined based on the Pribor/Euribor reference rates plus a usual market markup. The Parent Company makes repayments on a semi-annual basis on 25 May and 25 November each year. The final maturity date of the loan is 25 November 2014.

The subsidiary DPOV Přerov, a. s. obtained a long-term investment loan provided by KB, a. s. Přerov. As of 31 December 2010, CZK 20,315 thousand (2009: CZK 17,541 thousand) was drawn. The loan was collateralised by a Letter of Comfort from the Parent Company.

In the year ended 31 December 2008, the subsidiary ČD-Telematika a.s. obtained a long-term loan for the financing of the purchase of software licences. The provider of the loan is ČSOB leasing. The contract was discontinued as of 28 December 2009, the overpayment was refunded in February 2010.

On 13 July, the subsidiary ČD Cargo, a.s. started to issue debt bills of exchange. As of 31 December 2010, the total volume of these transactions amounted to CZK 813,117 thousand with the maturity in November 2011 (2009: CZK 1,013,500 thousand with the maturity of 6 months). As of 31 December 2009 and 2010, the company used no long-term loans. The balance of short-term loans as of 31 December 2010 is CZK 1,412,257 thousand (2009: CZK 32,783 thousand).

The Group breached no loan covenants in the reporting period.

25.1. Finance Lease Payables

The finance lease applies to railway vehicles, software, vehicles and equipment for computers and servers. The value of finance leases is as follows:

(CZK '000)	Minimum lease payments			Present value of minimum lease payments		
	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2010	31 Dec 2009	31 Dec 2008
Less than 1 year	969,759	850,676	660,173	767,719	668,295	520,517
From 1 to 5 years	3,819,478	3,102,410	2,548,501	3,129,026	2,644,994	2,271,067
5 years and more	2,719,499	1,751,924	1,020,360	2,436,883	1,597,104	965,150
Total	**7,508,736**	**5,705,010**	**4,229,034**	**6,333,628**	**4,910,393**	**3,756,734**
Less future finance expenses	-1,175,109	-794,617	-472,300			
Present value of minimum lease payments	**6,333,627**	**4,910,393**	**3,756,734**	**6,333,628**	**4,910,393**	**3,756,734**
In the statement of financial position as:						
■ short-term loans				767,719	668,295	520,517
■ long-term loans				5,565,909	4,242,098	3,236,217
Total				**6,333,628**	**4,910,393**	**3,756,734**

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

26. Provisions

(CZK '000)	Balance at 31 Dec 2008	Charge	Use	Balance at 31 Dec 2009	Charge	Use	Balance at 31 Dec 2010
Provision for discounts and refunds	20,100	9,752	20,100	9,752	22,165	9,752	22,165
Provision for rents	10,818	15,220	15,385	10,653	11,223	10,653	11,223
Provision for legal disputes	33,585	35,734	33,585	35,734	283,199	35,734	283,199
Provision for outstanding vacation days	120,640	77,294	120,640	77,294	75,542	77,294	75,542
Provision for removal of the environmental burden	0	226,737	0	226,737	0	3,034	223,703
Provisions for employees bonuses	568,202	211,767	231,188	548,781	110,352	164,373	494,760
Other provisions	19,592	2,267	19,592	2,267	736	2,266	737
Provisions for business risks	0	0	0	0	240,000	0	240,000
Total provisions	**772,937**	**578,771**	**440,490**	**911,218**	**743,217**	**303,106**	**1,351,329**
■ long-term	370,644			573,437			537,467
■ short-term	402,293			337,781			813,862

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 5%, anticipated inflation level of 2%, likelihood of death or disablement according to the data of the Czech Statistical Office. A change in the amount of the provision due to the change in these parameters is reported as actuarial gains (losses) in the income statement. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

In the first half of 2009, the Parent Company evaluated the results of the environmental audit performed in selected localities. The audit highlighted the need to provide the clean-up of the areas in Brodek u Přerova between 2010 and 2012. The budget of the clean-up is CZK 223,703 thousand (2009: CZK 226,737 thousand) and is planned to take three years. The funding of CZK 182,117 thousand (2009: CZK 180,962 thousand) will be provided from the Environmental Operational Programme in the form of an EU subsidy – Cohesion Fund and CZK 10,713 thousand (2009: CZK 10,645 thousand) will be provided from the Czech state budget, Chapter 15. A provision was recognised in respect of these aggregate costs in the consolidated financial statements for the year ended 31 December 2009; the claim for the subsidy is reported under 'Other non-current assets'.

27. Trade Payables

(CZK '000)

Year	Category	Before due date	Past due date (days) 0 - 30 days	31 - 90	91–180	181-365	365 and more	Total past due date	Total
31 Dec 2010	Short-term	7,589,620	479,437	35,527	15,276	6,719	6,938	543,897	8,133,517
31 Dec 2009	Short-term	7,731,855	513,877	38,079	6,588	5,978	11,040	575,562	8,307,417
31 Dec 2008	Short-term	7,331,805	597,317	44,262	93,462	31,060	19,038	785,139	8,116,944

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

Supplier invoices typically mature in 90 days.

28. Other Financial Liabilities

(CZK '000)

	31 Dec 2010	31 Dec 2009	31 Dec 2008
Long-term received prepayments	0	163,044	306,107
Financial derivatives	0	376,099	0
Other long-term liabilities	1,219,897	1,561,929	1,317,857
Total long-term	**1,219,897**	**2,101,072**	**1,623,964**
Other	88,862	712	88,177
Financial derivatives	148,452	386,878	1,327,784
Total short-term	**237,314**	**387,590**	**1,415,961**
Total	**1,457,211**	**2,488,662**	**3,039,925**

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

29. Other Liabilities

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total long-term	**89,957**	**101,260**	**106,876**
Received prepayments	227,343	241,290	248,144
Payables from the transition period (SŽDC-transformation)	435,865	435,865	436,108
Payables to employees	1,613,043	1,595,895	1,662,886
Social security and health insurance payables	509,414	517,245	530,087
Subsidies	1,104	31,098	22,642
Other	1,475,550	1,265,053	735,581
Total short-term	**4,262,319**	**4,086,446**	**3,635,448**
Total	**4,352,276**	**4,187,706**	**3,742,324**

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

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.

(CZK '000)			
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:

(CZK '000)	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**	**-1,327,784**	**-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 chapter 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.


Praha
hlavní
nádraží

Separate Financial Statements

Separate 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

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THESE FINANCIAL STATEMENTS WERE PREPARED ON 15 APRIL 2011.

STATUTORY BODY OF THE REPORTING ENTITY:

PETR ŽALUDA,
CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

Statement of financial position (balance sheet) as of 31 December 2010

		31 Dec 2010	31 Dec 2009	31 Dec 2008
		CZK thousand	CZK thousand	CZK thousand
Property, plant and equipment	16	48,185,530	42,435,867	39,240,381
Investment property	17	2,100 440	2,204,523	2,271,001
Intangible assets	18	414,706	503,365	486,035
Investments in subsidiaries and associates	19	10,819,834	11,125,834	11,515,526
Trade receivables	21	0	0	0
Other financial assets	22	541,406	480,990	493,979
Other assets	23	173,594	194,402	970
Total non-current assets		**62,235,510**	**56,944,981**	**54,007,892**
Inventories	20	1,116,735	1,048,777	953,774
Trade receivables	21	1,766,113	1,494,704	2,354,006
Tax receivables		357	0	0
Other financial assets	22	65,026	39,732	39,881
Other assets	23	586,019	523,138	599,370
Cash and cash equivalents	31	169 612	1,975,184	4,403,482
Assets held for sale	15	187,768	477,957	94,274
Total current assets		**3,891 630**	**5,559,492**	**8,444,787**
TOTAL ASSETS		**66,127,140**	**62,504,473**	**62,452,679**
Share capital	24	20,000,000	20,000,000	20,000,000
Reserve and other funds	24	16,587,992	16,531,014	16,450,458
Retained earnings		7,196,661	7,248,757	8,509,446
Total equity		**43,784,653**	**43,779,771**	**44,959,904**
Loans and borrowings	25	9,507,421	8,867,044	7,176,209
Deferred tax liability	13	0	0	0
Provisions	26	469,358	501,265	287,854
Other financial liabilities	28	66,951	59,414	193,916
Other liabilities	29	0	0	0
Total non-current payables		**10,043,730**	**9,427,723**	**7,657,979**
Trade payables	27	5,633,230	5,667,891	5,477,813
Loans and borrowings	25	3,249,569	455,898	1,049,430
Tax payables		0	0	0
Provisions	26	484,302	263,980	306,959
Other financial payables	28	19,578	300,147	387,028
Other payables	29	2,912,078	2,609,063	2,613,566
Payables arising from assets held for sale	15	0	0	0
Total current payables		**12,298,757**	**9,296,979**	**9,834,796**
TOTAL LIABILITIES		**66,127,140**	**62,504,473**	**62,452,679**

Income statement for the year ended 31 December 2010

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
		CZK thousand	CZK thousand
CONTINUING OPERATIONS			
Revenue from principal operations	5	23,967,875	24,373,945
Other operating income	6	1,908,696	1,854,382
Purchased consumables and services	7	-9,857,612	-10 319,895
Employee benefit costs	8	-13,103,556	-13,554,318
Depreciation and amortisation	9	-3,270,518	-3,330,307
Other operating losses, net	10	-205,398	-224,646
Loss before interest and tax		**-560,513**	**-1,200,839**
Financial expenses	11	-151,238	-211,814
Other gains, net	12	456,392	220,275
Loss before tax		**-255,359**	**-1,192,378**
Income tax expense	13	-1,999	-507
Loss for the period from continuing operations		**-257,358**	**-1,192,885**
DISCONTINUED OPERATIONS			
Profit from discontinued operations	15	205,262	12,752
Loss for the year		**-52,096**	**-1,180,133**

Statement of comprehensive income for the year ended 31 December 2010

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
		CZK thousand	CZK thousand
Loss for the year		-52,096	-1,180,133
Cash flow hedging		56,978	0
Relating income tax		0	0
Other comprehensive income for year, net of tax		**56,978**	**0**
Total comprehensive loss for the year		**4,882**	**-1,180,133**

Statement of changes in equity for the year ended 31 December 2010

	Share capital	Reserve and other funds	Retained earnings	Total equity
	CZK thousand	CZK thousand	CZK thousand	CZK thousand
Balance at 31 December 2008	**20,000,000**	**16,450,458**	**8,509,446**	**44,959,904**
Profit (loss) for the period	0	0	-1,180,133	-1,180,133
Other comprehensive income for the year, net of tax	0	0	0	0
Allocation to the reserve fund	0	80,556	-80 556	0
Balance at 31 December 2009	**20,000,000**	**16,531,014**	**7,248,757**	**43,779,771**
Profit (loss) for the period	0	0	-52,096	-52,096
Other comprehensive income for the year, net of tax	0	56,978	0	56,978
Allocation to the reserve fund	0	0	0	0
Balance at 31 December 2010	**20,000,000**	**16,587,992**	**7,196,661**	**43,784,653**

Cash flow statement for the year ended 31 December 2010

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
		CZK thousand	CZK thousand
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year before tax		-50,097	-1,179,626
Dividend income		-67,686	-62,193
Financial expenses		151,238	211,814
Profit (loss) from the sale and disposal of non-current assets		-548,547	-268,534
Depreciation and amortisation of non-current assets		3,270,518	3,330,307
Impairment of non-current assets		-195,527	-341,560
Impairment of trade receivables		6,015	35,869
Foreign exchange rate gains (losses)		-343,946	-100,549
Other		15,428	10,211
Cash flow from operating activities before changes in working capital		2,237,396	1,635,739
Decrease (increase) in trade receivables		-277,424	823,433
Decrease (increase) in inventories		-68,455	-97,083
Decrease (increase) in other assets		-71,161	-104,141
Increase (decrease) in trade payables		-94,713	-268,815
Increase (decrease) in provisions		188,414	170,432
Increase (decrease) in other payables		358	-243,322
Total changes in working capital		-322,981	280,504
Cash flows from operating activities		1,914,415	1,916,243
Interest paid		-144,797	-199,145
Income tax paid		-2,356	-507
Net cash flow from operating activities		1,767,262	1,716,591
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Payments for property, plant and equipment		-8,983,872	-5,673,327
Proceeds from disposal of property, plant and equipment		1,135,297	410,857
Payments for investment property		-86,408	-13,530
Net cash flows on disposal of a business part		600,400	0
Costs of acquisition of intangible assets		-83,859	-142,652
Received interest		11,441	13,718
Received dividends		67,686	62,193
Net cash flows (used in) from investment activities		-7,339,315	-5,342,741
CASH FLOWS FROM FINANCING ACTIVITIES			
Use of loans and borrowings		4,192,341	2,279,325
Repayments of loans and borrowings		-425,860	-,1,081,473
Net cash flow from financing activities		3,766,481	1,197,852
Net (decrease) increase in cash and cash equivalents		-1,805,572	-2,428,298
Cash and cash equivalents at the beginning of the reporting period		1,975,184	4,403,482
Cash and cash equivalents at the end of the reporting period		169,612	1,975,184

Notes to the financial statements for the year ended 31 December 2010

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1. General Information

1.1. Formation of the Company

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

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

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

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

1.4. Bodies of the Company

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

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

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

	Features	Name
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.

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

	Features	Name
BOARD OF DIRECTORS	Chairman	Petr Žaluda
	Member	Antonín Blažek
	Member	Michal Nebeský
	Member	Jiří Kolář
	Member	Milan Matzenauer

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

	Features	Name
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.

The composition of Company's Bodies as of 31 December 2010		
	Features	Name
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.

The composition of Company's Bodies as of 31 December 2010		
	Features	Name
RISK MANAGEMENT COMMITTEE	Chairman	Petr Vohralík
	Member	Michal Nebeský
	Member	Jaroslav Král, CSc
	Member	Antonín Blažek
	Member	Milan Matzenauer

2. Significant Accounting Policies

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

2.2. Basis of Preparation
The financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

Revenue from the sale of goods and other assets is recognised when the Company has transferred to the buyer the 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 shareholder's right to receive payment has been established.

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

2.4. Leases

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

2.4.1 The Company as a Lessor

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

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

2.4.2. The Company as a Lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.
Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

2.5. Foreign Currencies

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

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

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

2.6. Borrowing Costs

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

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

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

2.7. Government Grants

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

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

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

2.8. Employee Benefit Costs

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

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

2.9. Taxation

The income tax includes current tax payable and deferred tax.

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

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

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

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

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

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

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

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

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

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

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

2.11. Investment Property

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

2.12. Intangible Assets

2.12.1 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.

2.12.2 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.

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

2.13. Impairment of Tangible and Intangible Assets

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

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

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

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

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

2.14. Investments in Subsidiaries and Associates

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

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

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

2.15. Assets Held for Sale

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

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

2.16. Inventories

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

2.17. Provisions

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

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

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

2.18. Financial Instruments

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

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

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

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

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

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

2.18.1 Effective Interest Method

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

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

2.18.2. Held-to-maturity Investments

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

2.18.3. Financial Assets Available for Sale

Realizovatelná finanční aktiva jsou nederivátová finanční aktiva, která jsou buď označena jako realizovatelná, nebo nejsou klasifikována jako a) úvěry a pohleFinancial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

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

2.18.4. Loans and Receivables

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

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

2.18.5. Impairment of Financial Assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

The Company records impairment losses (allowances) based on an individual assessment of trade receivables and 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 Company does not recognise allowances against receivables from its subsidiaries and SŽDC.

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

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

2.18.6. Derecognition of Financial Assets

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

2.18.7. Equity Instruments

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

2.18.8. Other Financial Liabilities

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

2.18.9. Derecognition of Financial Liabilities

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

2.18.10. Derivative Financial Instruments

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

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

2.18.11. Hedge Accounting

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

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

2.18.12. Cash Flow Hedges

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

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

Hedge accounting is discontinued when the 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. Standard and Interpretations Adopted in Advance of their Effective Dates

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

3.3. Standards and Interpretations in Issue not yet Adopted

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

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
■ 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 Company anticipates that the adoption of these standards, revised standards and interpretations will have no material impact on the Company 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 Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

4.1. Useful Lives of Property, Plant and Equipment

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

4.2. Impairment of Assets

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

4.3.Revenue and Expenses from International Transportation

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

4.4. Measurement of Financial Instruments

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

4.5. Income Taxation

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

4.6. Provision for employee benefits

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

5. Revenue From Principal Operations

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

(CZK '000)	2010	2009
Revenue from passenger transportation	6,627,877	6,630,572
■ Intrastate passenger transportation	4,810,100	4,693,596
■ 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 securing railway routes - servicing the route	5,194,373	5,320,200
Other revenue from principal operations	34,512	62,329
Total revenue from principal operations – continuing operations	**23,967,875**	**24,373,945**

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

6. Other Operating Income

(CZK '000)	2010	2009
Gain from property, plant and equipment and investment property	337,839	268,534
Gain from the sale of inventory	68,488	69,247
Sales of other services	460,373	409,488
Rental income	635,884	632,045
Compensations for deficits and damage	89,136	63,192
Acquisition of material	38,779	60,790
Other subsidies	2,444	2,818
Other	275,753	348,268
Total other operating income – continuing operations	**1,908,696**	**1,854,382**

7. Purchased Consumables and Services

(CZK '000)	2010	2009
Traction costs	-2,629,003	-2,709,965
■ Traction fuel (diesel)	-1,302,719	-1,175,094
■ Traction electricity	-1,326,284	-1,534,871
Payment for the use of railway route	-1,444,051	-1,467,762
Other purchased consumables and services	-5,784,558	-6,142,168
■ Consumed material	-1,089,989	-1,281,297
■ Consumed other energy	-637,709	-611,864
■ Consumed fuel	-71,884	-55,985
■ Repairs and maintenance	-631,667	-739,642
■ Travel costs	-118,761	-123,822
■ Telecommunication, data and postal services	-364,595	-368,297
■ Other rental	-97,832	-105,262
■ Rental for rail vehicles	-420,125	-446,326
■ Transportation charges	-221,144	-253,282
■ Services of dining and sleeping carriages	-127,929	-126,226
■ Services associated with the use of buildings	-251,090	-219,114
■ Operational cleaning of rail vehicles	-408,482	-387,095
■ Border area services	-269,668	-281,893
■ Advertising and promotion costs	-134,825	-170,946
■ Other services	-938,858	-971,117
Total purchased consumables and services – continuing operations	**-9,857,612**	**-10,319,895**

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	-9,115,045	-9,538,739
Severance pay	-328,642	-260,710
Statutory social security and health insurance	-3,004,986	-3,117,075
Benefits resulting from the collective agreement	-162,279	-163,664
Other social costs	-486,784	-468,151
Other employee benefit costs	-5,820	-5,979
Total employees benefit costs – continuing operations	**-13,103,556**	**-13,554,318**

9. Depreciation and Amortisation

(CZK '000)	2010	2009
Depreciation of property, plant and equipment	-3,030,233	-3,115,380
Depreciation of investment property	-68,764	-44,372
Amortisation of intangible assets	-171,521	-170,555
Total depreciation and amortisation – continuing operations	**-3,270,518**	**-3,330,307**

10. Other Operating Losses

(CZK '000)	2010	2009
Change in other provisions	13,820	3,057
Losses (reversal of losses) from impaired receivables	22,859	-25,337
Losses (reversal of losses) from impaired property, plant and equipment and investment property	194,977	310,669
Write-down (reversal of the write-down) of inventories to their net realisable value	-496	-2,080
Taxes and fees	-49,702	-22,279
Other operating expenses	-386,856	-488,676
Total other operating losses – continuing operations	**-205,398**	**-224,646**

11. Financial Expenses

(CZK '000)	2010	2009
Interest on bank overdraft accounts and loans	-6,195	-16,440
Interest on finance lease payables	-38,351	-63,210
Other interest expenses	-195,178	-139,046
Less: amounts capitalised as part of the costs of an eligible asset	105,573	23,399
Unwinding of the discount of provisions	-17,087	-16,517
Total financial expenses – continuing operations	**-151,238**	**-211,814**

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	334,173	121,870
Received dividends	67,686	49,441
Received interest	11,441	13,718
Gains from current financial assets	2,408	19,399
Banking fees	-18,164	-18,275
Actuarial gains	70,075	34,635
Other	-11,227	-513
Total other gains – continuing operations	**456,392**	**220,275**

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	0	0
Deferred tax recognised in the income statement	0	0
Other *)	-1,999	-507
Total tax charge relating to continuing operations	**-1,999**	**-507**

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

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

(CZK '000)	2010	2009
Profit (loss) from continuing operations before tax	-255,359	-1,192,378
Income tax calculated using the statutory rate of 19% and 20%, respectively	48,518	238,476
Effect of the unrecognised deferred tax asset	27,606	-176,934
Other*)	-78,123	-62,049
Income tax reported in profit or loss	**-1,999**	**-507**

*) 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. Deferred Tax

(CZK '000)	Unutilised tax losses	Non-current assets	Provi-sions	Leases	Receivables	Other	Total
Balance at 31 Dec 2008 – calculated	859,971	-897,965	113,885	25,338	12,297	80	113,606
Balance at 31 Dec 2008 - recognised	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Deferred tax recognised in profit or loss:	0	0	0	0	0	0	0
■ of which current changes in the deferred tax	591,089	-437,820	31,512	-12,413	2,324	2,242	176,934
■ of which impairment *)	-591,089	437,820	-31,512	12,413	-2,324	-2,242	-176,934
Balance at 31 Dec 2009	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Deferred tax recognised in profit or loss:	0	0	0	0	0	0	0
■ of which current changes in the deferred tax	-331,442	310,971	-12,461	21,078	-6,124	-9,628	-27,606
■ of which impairment *)	331,442	-310,971	12,461	-21,078	6,124	9,628	27,606
Deferred tax recognised in other comprehensive income	0	0	0	0	0	0	0
■ of which current changes in the deferred tax	0	0	0	0	0	-10,735	-10,735
■ of which impairment *)	0	0	0	0	0	10,735	10,735
Balance at 31 Dec 2010	**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 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 in 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, the realisation of deferred tax assets is uncertain. For this reason, the Company attributes a zero recoverable value to this deferred tax asset when the resulting net position as of the balance sheet date is a deferred tax asset.

14. Segment Information

14.1. Products and Services from which Reportable Segments Derive their Revenues
IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. The Company's reportable segments under IFRS 8 are therefore as follows: :

- Passenger transportation – other information on passenger railway transportation is disclosed in Note 14.3.
- Management of operations – the 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 overhead activities that are not allocated to other segments.

14.2. Segment Revenues and Expenses
The following is an analysis of the Company's results from continuing operations by reportable segment in the format in which the financial statement is presented to the Company's management. Results of individual segments are reported in accordance with Czech Accounting Standards. Adjustments made for reporting under IFRS are provided as part of the reconciliation of the segment statement with the income statement.

(CZK million)						
2010	Passenger transportation	Management of operations	Administration of assets	Other	Elimination and reconciliation *)	Total
Revenue from principal operations						
Revenue from passenger transportation	6,516	0	0	0	112	6,628
Revenue from securing railway routes	0	5,194	0	0	0	5,194
Payments from orderers	12,111	0	0	0	0	12,111
Other	119	52	3	6	-145	35
	18,746	**5,246**	**3**	**6**	**-33**	**23,968**
Purchased consumables and services						
Traction costs	-2,631	0	0	0	2	-2,629
Payment for the use of the railway route	-1,398	0	0	0	-46	-1,444
Other purchased consumables and services	-6,205	-278	-689	-554	1,941	-5,785
	-10,234	**-278**	**-689**	**-554**	**1,897**	**-9,858**
Staff costs						
Payroll costs	-5,347	-3,379	-241	-564	87	-9,444
Social security and health insurance	-1,712	-1,091	-73	-158	29	-3,005
Statutory social costs	-35	-47	-2	-3	-400	-487
Statutory social costs - benefits arising from the collective agreement	-232	-149	-7	-12	232	-168
	-7,326	**-4,666**	**-323**	**-737**	**-52**	**-13,104**
Other operating income and expenses	1,164	-28	1,088	-213	-308	1,703
Intracompany income and expenses	-154	-18	203	-31	0	0
Overhead costs – operating	-895	-264	-63	1,222	0	0
Depreciation and amortisation	-1,692	-34	-220	-119	-1,206	-3,271
Other income and expenses	238	-4	6	322	-257	305
Overhead costs – financial and other	145	46	12	-203	0	0
Profit (loss) for the period from continuing operations	**-8**	**0**	**17**	**-307**	**41**	**-257**
Profit (loss) for the period from discontinued operations	0	0	0	307	-102	205
Profit (loss) for the period	**-8**	**0**	**17**	**0**	**-61**	**-52**

*) The 'Elimination and reconciliation' column includes eliminations of intracompany relations and differences between balances under Czech Accounting Standards and IFRS.

(CZK million)						
2009	Passenger transportation	Management of operations	Administration of assets	Other	Elimination and reconciliation *)	Total
Revenue from principal operations						
Revenue from passenger transportation	6,525	0	0	0	106	6,631
Revenue from securing railway routes	0	5,320	0	0	0	5,320
Payments from orderers	12,360	0	0	0	1	12,361
Other	102	66	3	33	-142	62
	18,987	**5,386**	**3**	**33**	**-35**	**24,374**
Purchased consumables and services						
Traction costs	-2,710	0	0	0	0	-2,710
Payment for the use of the railway route	-1,419	0	0	0	-49	-1,468
Other purchased consumables and services	-6,053	-314	-586	-758	1,569	-6,142
	-10,182	**-314**	**-586**	**-758**	**1,520**	**-10,320**
Staff costs						
Payroll costs	-5,603	-3,485	-242	-572	103	-9,799
Social security and health insurance	-1,791	-1,118	-79	-158	29	-3,117
Statutory social costs	-36	-36	-3	-4	-389	-468
Statutory social costs - benefits arising from the collective agreement	-226	-144	-8	-11	219	-170
	-7,656	**-4,783**	**-332**	**-745**	**-38**	**-13,554**
Other operating income and expenses	989	-5	880	205	-439	1,630
Intracompany income and expenses	-110	-58	191	-23	0	0
Overhead costs – operating	-962	-272	-54	1,288	0	0
Depreciation and amortisation	-1,792	-13	-219	-205	-1,101	-3,330
Other income and expenses	25	-3	22	-13	-24	7
Overhead costs – financial and other	-145	-48	-12	205	0	0
Profit (loss) for the period from continuing operations	**-846**	**-110**	**-107**	**-13**	**-117**	**-1,193**
Profit (loss) for the period from discontinued operations	0	0	0	13	0	13
Profit (loss) for the period	**-846**	**-110**	**-107**	**0**	**-117**	**-1,180**

*) 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 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 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.

At the financial statements date, the 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.

15. Discontinued Operations and Assets Held for Sale

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

In 2009, the Company decided to sell its equity share in TSS. Dividends received from this entity in 2009 were recognised in revenue from discontinued operations. The carrying amount of the investment in the subsidiary was reclassified to assets held for sale as of 31 December 2009.

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.

15.2. Analysis of the Profit (Loss) and Cash Flows from Discontinued Operations

The table shows the profit (loss) from discontinued operations (it is composed of the gain from the sale of TSS and the discount on the purchase price upon the transfer of the Company's business part to SŽDC in 2008. The discount of CZK 5,446 thousand relates to asset items for which SŽDC assumed no ownership right.

(CZK '000)	2010	2009
Dividends from TSS	0	12,752
Relevant income tax recognised in expenses	0	0
Gain from the the sale of TSS	210,708	0
■ Received consideration	600,400	
■ Sold interest in TSS	-389,692	
■ Relevant income tax recognised in expenses	0	0
Other (discount on the purchase price upon the transfer of the Company's business part to SŽDC in 2008)	-5,446	0
Total profit (loss) from discontinued operations	**205,262**	**12,752**
Cash flows from operating activities	0	0
Cash flows from investment activities	600,400	12,752
■ Net cash flows on disposal of a business part	600,400	0
■ Received dividends	0	12,752
Cash flows from financing activities	0	0
Net cash flows from discontinued operations	**600,400**	**12,752**

15.3. Assets Held for Sale

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Land	40,000	30,680	51,846
Buildings	147,768	57,585	42,428
Investments in subsidiaries and associates	0	389,692	0
Total	**187 768**	**477,957**	**94,274**

15.4. Spin-off of the Part of Business – Management of Operations

In 2008, part of the Company's business relating to certain activities securing the operability of railway route operations (securing operability, preparation of the railway timetable and fire brigade activities) was spun-off and transferred to SŽDC. The provision of other services (railway route servicing and organising railway transport under extraordinary circumstances), including the relevant capacities, remained the responsibility of the Company, which 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 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 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	6,248,853	12,563	25,704	-31,754	6,203,958	20,042	24,017	-41,415	6,158,568
Structures	13,830,027	513,663	27,748	-55,135	14,260,807	308,990	91,547	-349,264	14,128,986
Individual movable assets	50,127,156	5,912,649	1,576,146	3,114	54,466,773	7,361,990	2,619,512	13,496	59,222,747
■ Machinery, equipment, and furniture and fixtures	2,464,977	110,609	114,356	0	2,461,230	58,732	142,012	3,897	2,381,847
■ Vehicles	45,855,013	5,493,062	1,451,975	3,114	49,899,214	5,873,351	2,461,821	9,637	53,320,381
■ Vehicles acquired under finance leases	1,686,402	308,426	0	0	1,994,828	1,429,545	3,470	0	3,420,903
■ Other	120,764	552	9,815	0	111,501	362	12,209	-38	99,616
Other assets	4,219	0	84	0	4,135	65	369	0	3,831
Assets under construction	1,115,938	5,911,019	0	-5,771,826	1,255,131	5,355,121	3,007	-5,092,853	1,514,392
Prepayments	2,012,310	1,692,902	1,840,717	0	1,864,495	3,453,723	2,299,936	0	3,018,282
Total	**73,338,503**	**14,042,796**	**3,470,399**	**-5 855,601**	**78,055,299**	**16,499,931**	**5,038,388**	**-5,470,036**	**84,046,806**

(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	6,385,612	286,622	24,299	-33,568	6,614,367	284,091	60,689	-334,493	6,503,276
Individual movable assets	26,073,802	2,631,766	1,040,816	2,954	27,667,706	2,579,309	2,034,381	3,361	28,215,995
■ Machinery, equipment, and furniture and fixtures	1,760,840	106,695	92,079	0	1,775,456	103,620	138,958	4,518	1,744,636
■ Vehicles	24,080,719	2,409,177	939,499	2,954	25,553,351	2,341,774	1,880,461	144	26,014,808
■ Vehicles acquired under finance leases	130,935	112,422	0	0	243,357	131,181	2,892	0	371,646
■ Other	101,308	3,472	9,238	0	95,542	2,734	12,070	-1,301	84,905
Other assets	184	0	0	0	184	13	123	0	74
Total	**32,459,598**	**2,918,388**	**1,065,115**	**-30,614**	**34,282,257**	**2,863,413**	**2,095,193**	**-331,132**	**34,719,345**

(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	1,588,901	19,892	334,461	0	1,274,332	122,894	313,990	0	1,083,236
■ Machinery, equipment, and furniture and fixtures	1,929	238	1,929	0	238	171	238	0	171
■ Vehicles	1,586,972	19,654	332,532	0	1,274,094	122,723	313,752	0	1,083,065
Total	**1,638,524**	**35,001**	**335,596**	**-754**	**1,337,175**	**181,589**	**376,833**	**0**	**1,141,931**

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.

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	6,245,576	6,200,144	6,154,751
Buildings	7,398,069	7,587,411	7,570,832
Individual movable assets	22,464,453	25,524,735	29,923,516
■ Machinery, equipment, and furniture and fixtures	702,208	685,536	637,040
■ Vehicles	20,187,322	23,071,769	26,222,508
■ Vehicles acquired under finance leases	1,555,467	1,751,471	3,049,257
■ Other	19,456	15,959	14,711
Other assets	4,035	3,951	3,757
Assets under construction	1,115,938	1,255,131	1,514,392
Prepayments	2,012,310	1,864,495	3,018,282
Total	**39,240,381**	**42,435,867**	**48,185,530**

Principal additions in the years ended 31 December 2008, 2009 and 2010 include the acquisition of railway vehicles as part of the renewal of the 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, passenger coaches, other railway vehicles) used for operating passenger railway transportation. Pursuant to the inventory count and analyses, the Company identified items of assets for which there is a significant doubt about their future usability. The Company recognised an impairment loss for these items in the amount of the difference between the net book value and the estimated recoverable value. The recoverable value is usually determined as net proceeds from the sale less cost to sell. The principal impairment loss as of 31 December 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

16.2. Assets Pledged as Collateral

The 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 2010	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Cost	3,153,314	2,893,707	2,936,323
Accumulated depreciation	-1,049,795	-687,449	-663,580
Impairment	-3,079	-1,735	-1,742
Net book value	**2,100,440**	**2,204,523**	**2,271,001**

The Company includes in investment property real estate where at least 50% of its useful area is leased to an external lessee.

The property is located around the railway route, in train stations and depots of rail vehicles. The fair value based on market comparison cannot be determined with a reasonable certainty given the different nature and location of the property. The Company used a valuation model in determining the fair value of investment property. In respect of land, the calculation includes the product of the market price for m2 for the specific locality and the area of the land. In respect of buildings, the calculation is based on the yield method from market rental. The estimate of the fair value as of 31 December 2010, 2009 and 2008 is CZK 3,493,240 thousand, CZK 3,168,633 thousand and CZK 3,195,526 thousand, respectively.

The Company determines the depreciation method and useful lives of investment property on the same basis as for property included in property, plant and equipment.

18. Intangible Assets

(CZK '000) Cost	Balance at 31 Dec 2008	Additions	Disposals	Reclassi-fi-cation	Balance at 31 Dec 2009	Additions	Disposals	Reclassi-fi-cation	Balance at 31 Dec 2010
Development costs	104,038	0	166	0	103,872	0	7,614	0	96,258
Software	713,057	10,674	29,050	-169,757	524,924	71,483	2,287	0	594,120
Valuable rights	214,065	88,554	8,326	169,757	464,050	8,497	484	181	472,244
Other assets	760	0	0	0	760	0	0	0	760
Assets under construction	84,501	142,181	0	-98,189	128,493	99,385	0	-95,686	132,192
Total	**1,116,421**	**241,409**	**37,542**	**-98,189**	**1,222,099**	**179,365**	**10,385**	**-95,505**	**1,295,574**

(CZK '000) Accumulated amortisation	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Development costs	102,427	565	166	0	102,826	525	7,614	0	95,737
Software	305,258	132,682	36,598	-28,251	373,091	120,718	1,773	0	492,036
Valuable rights	183,636	37,876	7,706	28,251	242,057	50,278	0	0	292,335
Other assets	760	0	0	0	760	0	0	0	760
Assets under construction	0	0	0	0	0	0	0	0	0
Total	**592,081**	**171,123**	**44,470**	**0**	**718,734**	**171,521**	**9,387**	**0**	**880,868**

(CZK '000) Impairment	Balance at 31 Dec 2008	Additions	Disposals	Reclassification	Balance at 31 Dec2009	Additions	Disposals	Reclassification	Balance at 31 Dec 2010
Software	38,305	0	38,305	0	0	0	0	0	0
Total	**38,305**	**0**	**38,305**	**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	521
Software	369,494	151,833	102,084
Valuable rights	30,429	221,993	179,909
Other assets	0	0	0
Assets under construction	84,501	128,493	132,192
Total	**486,035**	**503,365**	**414,706**

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

Intangible fixed assets include ARES, In-card, UNIPOK, IS OPT, ISOŘ and items relating to the SAP R/3 accounting software and its modules.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure relating to the SAP R/3, ISOŘ, IS-PRM, IS-ADPV, In-cards, and IS-KADR software modules.

19. Investments in Subsidiaries and Associates

19.1. Information on Subsidiaries

(CZK '000)				
Name of the entity	Registered office	Value of investment as of 31 Dec 2010	Value of investment as of 31 Dec 2009	Value of investment as of 31 Dec 2008
Traťová strojní společnost, a. s.	Hradec Králové	0	0	389,692
Výzkumný Ústav Železniční, a. s.	Prague	382,711	382,711	382,711
ČD – Telematika a. s.	Prague	1,182,129	1,182,129	1,182,129
DPOV, a. s.	Přerov	385,291	385,291	385,291
ČD Cargo, a. s.	Prague	8,760,000	9,066,000	9,066,000
Total		**10,710,131**	**11,016,131**	**11,405,823**

(CZK '000)				
Name of the entity	Principal activities	Investment as of 31 Dec 2010	Investment as of 31 Dec 2009	Investment as of 31 Dec 2008
Traťová strojní společnost, a.s.	Maintenance and repairs of the superstructure	0%	51%	51%
Výzkumný Ústav Železniční, a.s.	Research and development in rail vehicles	100%	100%	100%
ČD – Telematika a. s.	Provision of ITC services	59.31%	59.31%	59.31%
DPOV, a. s.	Repairs and renovations of rail vehicles	100%	100%	100%
ČD Cargo, a. s.	Operations of railway freight transportation	100%	100%	100%

19.2. Information on Associates

(CZK '000)				
Name of the entity	Registered office	Value of investment as of 31 Dec 2010	Value of investment as of 31 Dec 2009	Value of investment as of 31 Dec 2008
JLV, a. s.	Prague	109,703	109,703	109,703
Total		**109,703**	**109,703**	**109,703**

Name of the entity	Principal activities	Investment as of 31 Dec 2010	Investment as of 31 Dec 2009	Investment as of 31 Dec 2008
JLV, a. s.	Catering services	38.79%	38.79%	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	74,000	77,274	274,677
Spare parts and other components for rail vehicles and locomotives	581,991	521,215	118,762
Other machinery, tools and equipment and their spare parts	99,169	122,693	198,171
Fuels, lubricants and other oil products	20,888	25,131	26,442
Work clothes, work shoes, protective devices	250,735	233,402	236,737
Other	98,484	77,101	104,944
Total cost	**1,125,267**	**1,056,816**	**959,733**
Write-down of inventories to their net realisable value	-,8,532	-8,039	-5,959
Total net book value	**1,116,735**	**1,048,777**	**953,774**

The 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	0	0	0
Short-term	1,766,113	1,494,704	2,354,006
Total	1,766,113	1,494,704	2,354,006

21.1. Aging of Trade Receivables

(CZK '000)			Past due date (days)						
	Category	Before due date	1 - 30 days	31 - 90	91–180	181-365	365 and more	Total past due date	Total
31 Dec 2010	Allowances	1,608,064	108,318	22,557	10,824	14,821	59,528	216,048	1,824,112
	Net	0	0			-3,205	-54,794	-57,999	-57,999
	Gross	**1,608,064**	**108,318**	**22,557**	**10,824**	**11,616**	**4,734**	**158,049**	**1,766,113**
31 Dec 2009	Allowances	1,419,234	41,862	23,834	47,115	15,151	49,734	177,696	1,596,930
	Net	0	0	-363	-36,978	-15,151	-49,734	-102,226	-102,226
	Gross	**1,419,234**	**41,862**	**23,471**	**10,137**	**0**	**0**	**75,470**	**1,494,704**
31 Dec 2008	Allowances	2,337,599	765	4,921	15,668	43,445	30,938	95,737	2,433,336
	Net	0	0	0	-4,947	-43,445	-30,938	-79,330	-79,330
	Netto	**2,337,599**	**765**	**4,921**	**10,721**	**0**	**0**	**16,407**	**2,354,006**

21.2. Movements in Allowances for Doubtful Receivables

(CZK '000)	2010	2009
Balance at the beginning of the year	**102,226**	**79,330**
Recognition of allowances	270,242	51,360
Use of allowances	-314,469	-28,464
Balance at the end of the year	**57,999**	**102,226**

22. Other Financial Assets

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Financial assets for sale	339,746	340,843	340,901
Receivables from finance leases	120,713	114,149	117,615
Hedging derivatives	42,793	0	0
Other	38,154	25,998	35,463
Total non-current financial assets	**541,406**	**480,990**	**493,979**
Receivables from finance leases	-6,658	3,466	193
Hedging derivatives	15,497	0	0
Other	56,187	36,266	39,688
Total current financial assets	**65,026**	**39,732**	**39,881**
Total	**606,432**	**520,722**	**533,860**

22.1. Receivables from Finance Leases

The Company lease 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	**173,594**	**194,402**	**970**
Prepayments made	130,621	140,889	110,698
Tax receivables (except for the corporate income tax)	342,737	296,657	400,383
Prepaid expenses	40,168	43,805	44,292
Other	72,493	41,787	43,997
Total current assets	**586,019**	**523,138**	**599,370**
Total	**759,613**	**717,540**	**600,340**

24. Equity

24.1. Share Capital

The Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

24.2. Reserve and Other Funds

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Share premium	16,438,594	16,438,594	16,438,594
Statutory reserve fund	92,420	92,420	11,864
Cash flow hedging reserve	56,978	0	0
Total	**16,587,992**	**16,531,014**	**16,450,458**

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

24.2.1. Cash Flow Hedging Reserve

(CZK '000)	2010	2009
Balance at the beginning of the year	**0**	**0**
Gain from cash flow hedging	56,978	0
Reclassification to the profit or loss	0	0
Total change in the cash flow hedging reserve	**56,978**	**0**
Relating income tax	0	0
Balance at the year-end	**56,978**	**0**

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 loans	256,798	271,195	275,960
Short-term issued bills of exchange	2,064,000	0	0
Payables from finance leases	204,888	184,703	146,359
Overdraft accounts	723,883	0	627,111
Total short-term	**3,249 569**	**455,898**	**1,049,430**
Payable to EUROFIMA	4,134,850	4,366,672	4 443,396
Issued bonds	1,982,412	1,970,899	0
Loan from ČSOB	770,392	1,084,780	1,379,800
Payables from finance leases	2,619,767	1,444,693	1,353,013
Total long-term	**9,507,421**	**8,867,044**	**7,176,209**
Total	**12,756,990**	**9,322,942**	**8,225,639**

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 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 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 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 Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium include Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The loan has been provided to finance the renovation of the Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. The interest rate of the loan is determined based on the EURIBOR reference rate plus a usual market markup. The Company makes repayments on a semi-annual basis on 25 May and 25 November each year. The final maturity date of the loan is 25 November 2014.

The Company breached no loan covenants in the reporting period.

25.1. Finance Lease Payables

The Company concluded several lease contracts for the purchase of railway vehicles. The loans mature in 10 and more years. Pursuant to a lease contract, the Company has the ability to buy these vehicles for a symbolic amount upon the expiration of the lease. The Company's payables arising from finance leases are collateralised by the lessor's ownership title to the leased assets. 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	252,998	222,774	199,179	204,888	184,703	146,359
From 1 to 5 years	1,590,510	893,962	748,917	1,264,504	784,887	660,245
5 years and more	1,518,748	695,712	729,978	1,355,263	659,806	692,768
Total	**3,362,256**	**1,812,448**	**1,678,074**	**2,824,655**	**1,629,396**	**1,499,372**
Less future finance expenses	-537,601	-183,052	-178,702			
Present value of minimum lease payments	**2,824,655**	**1,629,396**	**1,499,372**	**2,824,655**	**1,629,396**	**1,499,372**
In the statement of financial position as:						
■ short-term loans				204,888	184,703	146,359
■ long-term loans				2,619,767	1,444,693	1,353,013
Total				**2,824,655**	**1,629,396**	**1,499,372**

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 rents	10,818	15,220	15,385	10,653	11,223	10,653	11,223
Provision for legal disputes	25,585	26,687	25,585	26,687	275,601	26,687	275,601
Provision for outstanding vacation days	91,816	52,693	91,816	52,693	47,645	52,693	47,645
Provision for removal of the environmental burden	0	226,737	0	226,737	0	3,034	223,703
Provisions for employees bonuses	466,594	145,545	163,664	448,475	109,292	162,279	395,488
Total provisions	**594,813**	**466,882**	**296,450**	**765,245**	**443,761**	**255,346**	**953,660**
■ long-term	287,854			501,265			469,358
■ short-term	306,959			263,980			484,302

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays. In calculating the provision, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees of 5%, anticipated increase in salaries of 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 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 (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: 10,645 thousand) will be provided from the Czech state budget. A provision was recognised in respect of these aggregate costs in the financial statements for the year ended 31 December 2009; the claim for the subsidy is reported under 'Other non-current assets'.

27. Trade Payables

(CZK '000)										
Year	Category	Before due date	Past due date (days) 1 - 30	31 - 90	91–180	181-365	365 and more	Total past due date	Total
31 Dec 2010	Short-term	5,148,777	450,386	6,916	15,455	5,189	6,507	484,453	**5,633,230**
31 Dec 2009	Short-term	5,146,958	504,878	354	-6,851	11,209	11,343	520,933	**5,667,891**
31 Dec 2008	Short-term	4,862,243	499,415	0	75,043	22,074	19,038	615,570	**5,477,813**

The Company 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
Total long-term	**66,951**	**59,414**	**193,916**
Liability arising upon the formation of ČD Cargo,a.s.	0	305,296	305,709
Other	19,578	-5,149,	81,319
Total short-term	**19,578**	**300,147**	**387,028**
Total	**86,529**	**359,561**	**580,944**

29. Other Liabilities

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Total long-term	**0**	**0**	**0**
Received prepayments	149,779	138,110	143,519
Payables from the transition period (SŽDC-transformation)	435,865	435,865	436,108
Payables to employees	1,130,823	1,074,163	1,081,163
Social security and health insurance payables	363,267	371,591	360,323
Subsidies	0	30,063	20,083
Other	832,344	559,271	572,370
Total short-term	**2,912,078**	**2,609,063**	**2,613,566**
Total	**2,912,078**	**2,609,063**	**2,613,566**

30. Related Party Transactions

30.1. Income Generated from related parties

(CZK '000)				
2010	**Sale of inventories**	**Sale of services**	**Other income**	**Total**
ČD – Telematika a. s.	6	19,772	377	20,155
Traťová strojní společnost, a. s.	21,407	1,662	26	23,095
Výzkumný Ústav Železniční, a. s.	25	2,350	0	2,375
DPOV, a.s.	143,885	66,359	990	211,234
ČD Cargo, a. s.	756,218	183,644	5,866	945,728
JLV, a. s.	0	8,982	0	8,982
Total	**921,541**	**282,769**	**7,259**	**1,211,569**

(CZK '000)				
2009	**Sale of inventories**	**Sale of services**	**Other income**	**Total**
ČD – Telematika a. s.	20	17,696	2,532	20,248
Traťová strojní společnost, a. s.	33,912	3,084	24	37,020
Výzkumný Ústav Železniční, a. s.	10	2,076	3	2,089
DPOV, a.s.	133,544	44,887	1,036	179,467
ČD Cargo, a. s.	673,010	191,537	30,666	895,213
JLV, a. s.	0	675	0	675,
Total	**840,496**	**259,955**	**34,261**	**1,134,712**

30.2. Purchases from Related Parties

(CZK '000)				
2010	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	15,432	265,013	5	280,450
Traťová strojní společnost, a. s.	0	0	0	0
Výzkumný Ústav Železniční, a. s.	18	1,341	0	1,359,
DPOV, a.s.	23,105	26,603	193	49,901
ČD Cargo, a.s.	2,688	29,187	473	32,348
JLV, a. s.	0	127,929	0	127,929
Total	**41,243**	**450,073**	**671**	**491,987**

(CZK '000)				
2009	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	20,278	248,529	35	268,842
Traťová strojní společnost, a. s.	19	430	0	449
Výzkumný Ústav Železniční, a. s.	0	1,389	0	1,389
DPOV, a.s.	75,470	159 816	158	235,444
ČD Cargo, a.s.	7,446	41,238	870	,49,554
JLV, a. s.	0	126,226	0	126,226
Total	**103,213**	**577,628**	**1,063**	**681,904**

30.3. Purchases and Sales of Fixed Assets and Financial Assets with Related Parties

(CZK '000)				
Sales	Intangible fixed assets 2010	Tangible fixed assets 2010	Intangible fixed assets 2009	Tangible fixed assets 2009
ČD - Telematika a. s.	0	0	0	8,450
Traťová strojní společnost, a. s.	0	0	0	10,257
Výzkumný Ústav Železniční, a. s.	0	0	0	0
DPOV, a.s.	0	18,632	0	19,680
ČD Cargo, a.s.	0	9,040	0	41,424
Total	**0**	**27,672**	**0**	**79,811**

Sales of fixed assets in 2010 in ČD Cargo, a.s. included the sale of land of CZK 3,100 thousand. Sales of fixed assets in 2009 in ČD-Telematika included sales of land. In Traťová strojní společnost, a.s. the land amounted to CZK 6,300 thousand of the aggregate amount of sold tangible assets. In ČD Cargo, a.s., the land amounted to CZK 34,928 thousand of the aggregate amount of sold tangible fixed assets.

(CZK '000)				
Purchases	**Intangible fixed assets 2010**	**Tangible fixed assets 2010**	**Intangible fixed assets 2009**	**Tangible fixed assets 2009**
ČD - Telematika a. s.	52,655	1,421	43,883	703
DPOV, a.s.	0	731,664	0	461,263
ČD Cargo, a.s.	0	0	0	0
Jídelní a lůžkové vozy, a. s.**	0	0	0	0
Total	**52,655**	**733,085**	**43,883**	**461,966**

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

30.4. Outstanding Balances at the End of the Reporting Period

(CZK '000)		
31 Dec 2010	**Receivables**	**Payables**
ČD - Telematika a. s.	5,902	131,308
Traťová strojní společnost, a. s.	0	0
Výzkumný Ústav Železniční, a. s.	351	815
DPOV, a.s.	65,652	298,249
ČD Cargo, a.s.	331,666	5,483
JLV, a. s.	801	26,425
Total	**404,372**	**462,280**

(CZK '000)		
31 Dec 2009	**Receivables**	**Payables**
ČD - Telematika a. s.	3,787	143,612
Traťová strojní společnost, a. s.	7,829	123
Výzkumný Ústav Železniční, a. s.	100	926
DPOV, a.s.	50,947	250,458
ČD Cargo, a.s.	123,490	316,784
JLV, a. s.	1,112	35,583
Total	**187,265**	**747,486**

(CZK '000)		
31 Dec 2008	**Receivables**	**Payables**
ČD - Telematika a. s.	3,835	182,238
Traťová strojní společnost, a. s.	8,389	125
Výzkumný Ústav Železniční, a. s.	151	446
DPOV, a.s.	48,642	210,277
ČD Cargo, a.s.	263,096	341,504
JLV, a. s.	1,916	37,261
Total	**326,029**	**771,851**

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

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

30.5. Loans to Related Parties

As of 31 December 2010, 31 December 2009 and 31 December 2008, the Company provided no loans to related parties.

30.6. Bonuses to Key Management Members

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

(CZK '000)		
2010	2010	2009
Short-term employee benefits	104,099	84,545
Post-employment benefits	0	0
Other long-term employees benefits	0	0
Total	**104,099**	**84,545**

In addition to the possibility of using reduced fares, the members of the Company's statutory and supervisory bodies were provided with cash bonuses of CZK 5,820 thousand and CZK 5,979 thousand in 2010 and 2009, respectively. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

30.7. Transactions with SŽDC

The Company is wholly owned by the state. In accordance with the exemption listed in paragraphs 25 – 27 of IAS 24 (revised), the Company does not include other state-owned entities among related parties. The table below presents only transactions with SŽDC as a result of SŽDC's significant position in the Company's activities.

In the year ended 31 December 2010, the 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 Company operates the railway route and it pays a regulated fee to SŽDC for the use of the railway route. The expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2010 and 2009 were as follows:

(CZK '000)		
2010	Expenses	Income
Securing railway routes – management of operations	0	5,194,373
Maintenance of operability	0	0
Use of railway route and allocated capacity of the railway route	1,444 051	0
Consumed traction electricity	944,578	0
Other	139,404	0
Total	**2,528,033**	**5,194,373**

(CZK '000)		
2009	Expenses	Income
Securing railway routes – management of operations	0	5,320,200
Maintenance of operability	0	0
Use of railway route and allocated capacity of the railway route	1,467,762	0
Consumed traction electricity	1,534,871	0
Other	192,298	0
Total	**3,194,931**	**5,320,200**

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 Company records receivables from and payables to SŽDC. The total amount of receivables reported in the line 'Trade receivables' is CZK 554,871 thousand as of 31 December 2010 (2009: CZK 464,466 thousand; 2008: CZK 923,023 thousand). The total amount of payables reported in the line 'Trade payables' is CZK 980,545 thousand as of 31 December 2010 (2009: CZK 1,216,293 thousand; 2008: CZK 1,129,357 thousand).

In addition, the Company reports an estimated payable in the line 'Trade payables' arising from unbilled supplies from SŽDC in the amount of CZK 20,303 thousand as of 31 December 2010 (2009: CZK 27,003 thousand; 2008: CZK 120,008 thousand). The estimated receivable arising from the billing of securing railway routes reported in the line 'Trade receivables' amounted to CZK 9,172 thousand as of 31 December 2010 (2009: CZK 8,053 thousand; 2008: CZK 78,354 thousand).

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	52,351	50,598	40,264
Cash at bank	117,261	724,586	350,710
Depository bills of exchange	0	1,200,000	4,012,508
Total	**169,612**	**1,975,184**	**4,403,482**

32. Contracts for Operating Leases

32.1. The Company as a Lessee

Assets under operating leases which are reported off balance sheet as of 31 December 2010, 31 December 2008 and 31 December 2008 amount to CZK 7,891 thousand, CZK 11,225 thousand and CZK 11,729 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 50,297 thousand and CZK 53,837 thousand, respectively.

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

32.2. The Company as a Lessor
Operating leases applies to investment property held by the Company 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 67,239 thousand (2009: CZK 4,361 thousand).

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

33. Contractual Obligations Relating to Expenses

As of the balance sheet date, the Company concluded contracts for the purchase of fixed assets in the amount of CZK 16,678 million, of which CZK 5,713 million relates to supplies agreed for 2011 and CZK 6,857 million relates to supplies agreed for the following years. The remaining amount of CZK 4,108 million was paid as of 31 December 2010. A significant part of the obligations relating to expenses (CZK 16,288 million) include investments in railway vehicles.

34. Contingent Liabilities and Contingent Assets

In the year ended 31 December 2010, two bank guarantees were renewed for the appropriate performance of the Contract for the Public Services in Railway Transport in the Public Interest to Provide for Transportation Needs of the State on the:

- Pardubice – Liberec railway track, in respect of the contract entitled "Ordered Transportation between Pardubice and Liberec", CZK 15 million, maturity on 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 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 Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Company's management.

35. Financial Instruments

35.1. Capital Risk Management

The Company manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance. The Board of Directors and the Supervisory Board are regularly informed about the development of debt. Any additional debt is subject to approval by the Company's statutory bodies, ie the Board of Directors and the Supervisory Board.

The Company is not subject to any externally imposed capital requirements.

In 2010, the Company 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 Company with funding. The issued bills of exchange are used primarily for liquidity management when the Company 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	169,612	775,184	390,974
Held-to-maturity investments (term deposits and bills of exchange)	0	1,200,000	4,012,508
Loans and receivables	2,032,799	1,674,583	2,546,965
Available-for-sale financial assets	339,746	340,843	340,901
Total	**2,542,157**	**3,990,610**	**7,291,348**

(CZK '000)			
Financial liabilities	**31 Dec 2010**	**31 Dec 2009**	**31 Dec 2008**
Measured at amortised cost	18,476,749	15,350,394	14,284,396
Total	**18,476,749**	**15,350,394**	**14,284,396**

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)			
Category of financial assets	**2010**	**2009**	**Reported in the income statement line**
Interest on cash in bank accounts	963	3,043	Other gains
Interest on investments held to maturity (term deposits and bills of exchange)	2,407	19,399	Other gains
Dividends from available-for-sale financial assets	28,677	28,610	Other gains
Total	**32,047**	**51,052**	

Impairment losses on financial assets are presented in the Note 'Trade receivables'. No impairment was noted in respect of any other class of financial assets.

35.4. Financial Risk Management Objectives

The Company's Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

35.5. Currency Risk Management

The Company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation and received loans. The Company 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 Company'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	582,417	650	1,266	584,333
Financial liabilities	-6,116,566	0	-487	-6,117,053
Total	**-5,534,149**	**650**	**779**	**-5,532,720**

(CZK '000)				
31 Dec 2009	**EUR**	**USD**	**Other**	**Total**
Financial assets	652,432	171	1,000	653,603
Financial liabilities	-6,852,124	0	-464	-6,852,588
Total	**-6,199,692**	**171**	**536**	**-6,198,985**

(CZK,'000)				
31 Dec 2008	**EUR**	**USD**	**Other**	**Total**
Financial assets	139,038	180	1,589	140,807
Financial liabilities	-6,890,164	-1	-4	-6,890,169
Total	**-6,751,126**	**179**	**1,585**	**-6,749,362**

35.5.1. Foreign Currency Sensitivity Analysis

The exposure to currency risks is measured by a sensitivity analysis. The Company is exposed to the currency risk due to:

- the change in the value of unhedged cash items denominated in foreign currencies.

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	220,765	234,223
Total impact on the profit for the period	**220,765**	**234,223**
Total impact on other comprehensive income	**-2,635**	**0**

35.6. Interest Rate Risk Management

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

Concurrently, the Company concludes interest rate swap contracts in order to hedge future cash flows resulting from loans and borrowings with variable rates. The hedging is regularly assessed to bring the opinions on the development of interest rates into line with the defined level of acceptable risk. This treatment provides for the application of the economically most effective hedging strategies.

35.6.1. Interest Rate Sensitivity Analysis

The exposure to changes in interest rates is measured by the sensitivity analysis. The Company is exposed to the interest rate risk due to:

- Changes in interest expenses from loans and lease with a variable rate;
- Changes in the present value of long-term provisions resulting from the change in the discount rate; and
- Change in the fair value of concluded financial derivatives.

The following table shows the impact that an increase in interest rates of 200 basis points would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates the decrease in the profit and other comprehensive income:

(CZK '000)	2010	2009
Interest from loans and lease with variable rate for the period	-2,873	-5,456
Change in the present value of long-term provisions at the end of the period	30,312	34,142
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**27,439**	**28,686**
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 Swap Contracts

Based on interest rate swap contracts, the Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Company to eliminate the risk of changing cash flows on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period. As of 31 December 2009 and 2008, the Company concluded no interest rate swap contracts.

(CZK '000)			
31 December 2010	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	2.43%	60 mil. EUR	0
1 to 5 years	2.43%	60 mil. EUR	17,564
5 years and more	2.43%	60 mil. EUR	17,397
Total			**34,961**

The Company settles the difference between the fixed and variable interest rates on a net basis. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the variable interest rates on debt affect the profit or loss.

35.7. Commodity Risk Management

The Company is exposed to the risk of changes in the price of commodities, as the use of commodities, specifically oil and electricity, is a significant cost item of the Company. The Company manages this risk using the combination of several instruments as follows:

- Conclusion of mid-term derivatives for oil purchase;
- In the event of an increase in the price of the commodities listed above of more than 10% the Company has the possibility of asking the regions and the state for increased payments for transportation; and
- Negotiating a fixed price of electricity from the relevant supplier always for the following calendar year.

35.7.1. Analysis of Sensitivity to Changes in Commodity Prices

The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Company is exposed to the risk of changes in prices of commodities due to:

- Change in the fair value of concluded financial derivatives; and
- Changes in prices of purchases of unhedged use of commodities.

The following table shows the impact that an increase in the oil price of 10% would have on the profit and other comprehensive income. A positive value indicates the increase in the profit and other comprehensive income, a negative value indicates a decrease in the profit and other comprehensive income:

(CZK '000)	2010	2009
Costs of oil consumption for the period	-93,628	-133,000
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**-93,628**	**-133,000**
Change in the fair value of derivatives at the end of the period	17,964	0
Total impact on other comprehensive income	**17,964**	**0**

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	580 – 820	7,663	22,017
31 Dec 2009	-	0	0
31 Dec 2008	-	0	0

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 Company.

The concentration of the Company's credit risk is low as a significant portion of the Company's revenues (passenger transportation fare) is collected in cash. In other transactions, the Company seeks to deal only with creditworthy counterparties whom the Company reviews on an ongoing basis using publicly available information. The maximum unhedged exposure to one counterparty is determined at CZK 50 million. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned (the investment grade is required).

The carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk.

35.9. Liquidity Risk Management

The ultimate responsibility for liquidity risk management rests with the Board of Directors which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages 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 Company's short-term liabilities significantly exceed its short-term assets as of 31 December 2010. The predominant reason relates to the urgent necessity for capital expenditure and the use of easily available short-term funds for this purpose. The Company believes that it is able to manage this situation in the short-term through managing relationships with its suppliers and using all available short-term funds. In the mid-term financial plan, the Company anticipates increasing its long-term funds.

35.9.1. Liquidity and Interest Rate Risk Tables

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows. To the extent that instruments carry the floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period and may change, if interest rates will differ from determined estimates. The contractual maturity is based on the earliest date on which the Company may be required to pay.

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

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

(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	2,181,113	2,690,964	767,284	394,932	33,411	6,067,704
Finance lease liabilities	17,531	34,909	146,739	748,917	729,978	1,678,074
Variable interest rate instruments	631,121	88,023	427,718	1,808,325	4,411,095	7,366,282
Fixed interest rate instruments	0	0	0	0	0	0
Total	**2,829,765**	**2,813,896**	**1,341,741**	**2,952,174**	**5,174,484**	**15,112,060**

The following tables present the Company's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets reflecting the anticipated maturity period. The table includes cash flows from the interest and principal.

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

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

(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	1,756,101	709,969	362,871	195	340,843	3,169,979
Finance lease assets	720	0	10,148	18,011	480,803	509,682
Fixed interest rate instruments	4,012,508	0	0	0	0	4,012,508
Total	**5,769,329**	**709,969**	**373,019**	**18,206**	**821,646**	**7,692,169**

35.9.2. Financing Facilities
The Company has access to the below loan facilities:

(CZK '000)	31 Dec 2010	31 Dec 2009	31 Dec 2008
Overdraft loan facilities:			
■ amount of the loan facility	1,550,000	1,550,000	1,550,000
■ amount unused	826,117	1,018,107	990,034
Bills of exchange programme:			
■ amount of the loan facility	5,000,000	0	0
■ amount unused	2,936,000	0	0

35.10. Fair Value of Financial Instruments

35.10.1 Fair Values of Financial Instruments Carried at Amortised Cost
Management of the Company considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

35.10.2 Valuation Techniques Applied for the Purposes of Measuring Fair Value
The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (except for financial derivatives) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, dealer quotes for similar instruments; and
- The fair values of financial derivatives are calculated using quoted prices. If these prices are not available, linear derivatives are measured using discounted cash flows with the use of quoted foreign exchange currency rates, quoted prices of commodities and an appropriate yield curve corresponding to the validity of contracts. An option valuation model is used for derivatives that include an option.

35.10.3 Fair Value Measurements Recognised in the Statement of Financial Position
Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments measured at fair value recognised by the Company as of 31 December 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	**340,901**	**0**	**340,901**
Total gains (losses) from revaluation	0	0	0
■ in profit or loss	0	0	,0
■ in other comprehensive income	0	0	0
Purchases	0	0	0
Sales/settlement	-58	0	-58
Balance at 31 Dec 2009	**340,843**	**0**	**340,843**
Total gains (losses) from revaluation	0	58,290	58,290
■ in profit or loss	0	1,312	1,312
■ in other comprehensive income	0	56,978	56,978
Purchases	4,092	0	4,092
Sales/settlement	-5,189	0	-5,189
Balance at 31 Dec 2010	**339,746**	**58,290**	**398,036**

36. Post Balance Sheet Events

The Company started to prepare the transfer of its business part securing the servicing of the railway route to SŽDC (see chapter 15.4).

37. Approval of the Financial Statements

Approval of the Financial Statements

The financial statements were approved by the Board of Directors and authorised for issue on 15 April 2011.


Praha
hlavní
nádraží

Financial statements

Financial Statemens for the year ended 31 December 2010

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

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THESE FINANCIAL STATEMENTS WERE PREPARED ON 12 APRIL 2011.

STATUTORY BODY OF THE REPORTING ENTITY:

PETR ŽALUDA
CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

Balance sheet full version

(in CZK thousand)					
As of 31.12.2010		31 Dec 2010			31 Dec 2009
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**92,181,392**	**33,788,827**	**58,392,565**	**56,349,647**
B.	**Fixed assets**	**87,982,126**	**33,486,843**	**54,495,283**	**51,035,337**
B.I.	**Intangible fixed assets**	**3,024,660**	**2,609,954**	**414,706**	**503,364**
B.I.2.	Research and development	96,257	95,737	520	1,046
B.I.3.	Software	594,117	492,035	102,082	151,831
B.I.4.	Valuable rights	2,201,332	2,021,422	179,910	221,993
B.I.6.	Other intangible fixed assets	760	760		
B.I.7.	Intangible fixed assets under construction	132,194		132,194	128,494
B.II.	**Tangible fixed assets**	**74,286,491**	**30,871,700**	**43,414,791**	**39,221,763**
B.II.1.	Land	6,393,826	3,860	6,389,966	6,403,284
B.II.2.	Structures	17,297,947	8,411,138	8,886,809	8,897,059
B.II.3.	Individual movable assets and sets of movable assets	46,658,837	22,456,628	24,202,209	21,373,537
B.II.6.	Other tangible fixed assets	3,832	74	3,758	3,951
B.II.7.	Tangible fixed assets under construction	913,767		913,767	679,437
B.II.8.	Prepayments for tangible fixed assets	3,018,282		3,018,282	1,864,495
B.III.	**Non-current financial assets**	**10,670,975**	**5,189**	**10,665,786**	**11,310,210**
B.III.1.	Equity investments in subsidiaries	10,242,595		10,242,595	10,868,054
B.III.2.	Equity investments in associates	155,443		155,443	169,219
B.III.3.	Other securities and investments	272,937	5,189	267,748	272,937
C.	**Current assets**	**4,117,317**	**301,984**	**3,815,333**	**5,226,161**
C.I.	**Inventories**	**1,725,891**	**8,532**	**1,717,359**	**1,652,408**
C.I.1.	Material	1,717,473	8,532	1,708,941	1,647,068
C.I.2.	Work in progress and semifinished goods	1,450		1,450	
C.I.5.	Goods	3,824		3,824	4,259
C.I.6.	Prepayments for inventory	3,144		3,144	1,081
C.II.	**Long-term receivables**	**83,694**	**21,982**	**61,712**	**28,793**
C.II.5.	Long-term prepayments made	2,502		2,502	2,730
C.II.7.	Other receivables	81,192	21,982	59,210	26,063
C.III.	**Short-term receivables**	**2,138,120**	**271,470**	**1,866,650**	**1,569,776**
C.III.1.	Trade receivables	914,455	266,313	648,142	403,174
C.III.6.	State - tax receivables	377,188		377,188	296,657
C.III.7.	Short-term prepayments made	130,621		130,621	140,889
C.III.8.	Estimated receivables	638,393		638,393	695,570
C.III.9.	Other receivables	77,463	5,157	72,306	33,486
C.IV.	**Current financial assets**	**169,612**		**169,612**	**1,975,184**
C.IV.1.	Cash on hand	52,351		52,351	50,598
C.IV.2.	Cash at bank	117,261		117,261	724,586
C.IV.3.	Short-term securities and investments				1,200,000
D. I.	**Other assets**	**81,949**		**81,949**	**88,149**
D.I.1.	Deferred expenses	81,319		81,319	87,343
D.I.3.	Accrued income	630		630	806

		31 Dec 2010	31 Dec 2009
	TOTAL LIABILITIES & EQUITY	**58,392,565**	**56,349,647**
A.	**Equity**	**40,615,006**	**40,788,514**
A.I.	**Share capital**	**20,000,000**	**20,000,000**
A.I.1.	Share capital	20,000,000	20,000,000
A.II.	**Capital funds**	**20,561,591**	**20,743,330**
A.II.1.	Share premium	16,070,073	16,256,957
A.II.2.	Other capital funds	-921,182	-919,193
A.II.3.	Gains or losses from the revaluation of assets and liabilities	5,412,700	5,405,566
A.III.	**Statutory funds**	**211,260**	**212,374**
A.III.1.	Statutory reserve fund / Indivisible fund	92,420	92,420
A.III.2.	Statutory and other funds	118,840	119,954
A.IV.	**Retained earnings**	**-167,190**	**896,145**
A.IV.1.	Accumulated profits brought forward		896,145
A.IV.2.	Accumulated losses brought forward	-167,190	
A.V.	**Profit or loss for the current period (+ -)**	**9,345**	**-1,063,335**
B.	**Liabilities**	**17,516,816**	**15,380,890**
B.I.	**Reserves**	**365,343**	**125,163**
B.I.4.	Other reserves	365,343	125,163
B.II.	**Long-term liabilities**	**6,201,801**	**6,419,089**
B.II.1.	Trade payables	66,951	52,417
B.II.6.	Bonds issued	2,000,000	2,000,000
B.II.9.	Other payables	4,134,850	4,366,672
B.III.	**Short-term liabilities**	**7,134,599**	**7,480,663**
B.III.1.	Trade payables	4,776,995	4,705,092
B.III.4.	Payables to partners and association members		306,000
B.III.5.	Payables to employees	833,453	767,325
B.III.6.	Social security and health insurance payables	363,267	371,591
B.III.7.	State - tax payables and subsidies	131,238	140,241
B.III.8.	Short-term prepayments received	149,779	138,110
B.III.10.	Estimated payables	876,825	1,046,181
B.III.11.	Other payables	3,042	6,123
B.IV.	**Bank loans and borrowings**	**3,815,073**	**1,355,975**
B.IV.1.	Long-term bank loans	770,392	1,084,780
B.IV.2.	Short-term bank loans	980,681	271,195
B.IV.3.	Short-term borrowings	2,064,000	
C. I.	**Other liabilities**	**260,743**	**180,243**
C.I.1.	Accrued expenses	69,612	29,959
C.I.2.	Deferred income	191,131	150,284

Profit and loss account structured by the nature of expense method

(in CZK thousand)			
Year ended 31.12.2010		Year ended 31 Dec 2010	Year ended 31 Dec 2009
I.	Sales of goods	13,796	14,558
A.	Costs of goods sold	12,326	11,518
+	**Gross margin**	**1,470**	**3,040**
II.	Production	13,068,685	13,182,569
II.1.	Sales of own products and services	12,855,585	12,960,080
II.2.	Change in internally produced inventory	1,449	-231
II.3.	Own work capitalised	211,651	222,720
B.	Purchased consumables and services	11,754,527	11,839,394
B.1.	Consumed material and energy	4,643,475	4,881,600
B.2.	Services	7,111,052	6,957,794
+	**Added value**	**1,315,628**	**1,346,215**
C.	Staff costs	13,058,322	13,522,454
C.1.	Payroll costs	9,531,408	9,902,127
C.2.	Remuneration to members of statutory bodies	5,820	5,979
C.3.	Social security and health insurance costs	3,034,310	3,146,197
C.4.	Social costs	486,784	468,151
D.	Taxes and charges	49,701	22,279
E.	Depreciation of intangible and tangible fixed assets	2,064,559	2,228,359
III.	Sales of fixed assets and material	2,098,164	1,294,392
III.1.	Sales of fixed assets	1,097,345	385,696
III.2.	Sales of material	1,000,819	908,696
F.	Net book value of fixed assets and material sold	1,419,566	948,705
F.1.	Net book value of sold fixed assets	485,765	106,216
F.2.	Book value of sold material	933,801	842,489
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-24,833	-311,843
IV.	Other operating income	13,017,009	13,150,708
H.	Other operating expenses	414,930	488,676
*	**Operating profit or loss**	**-551,444**	**-1,107,315**
VI.	Proceeds from the sale of securities and investments	600,400	57
J.	Cost of securities and investments sold	287,483	57
VII.	Cost of securities and investments sold	67,686	62,193
VII.3.	Income from other non-current financial assets	67,686	62,193
VIII.	Income from current financial assets	2,407	19,399
M.	Change in reserves and provisions relating to financial activities	5,189	
X.	Interest income	963	3,043
N.	Interest expenses	95,800	132,087
XI.	Other financial income	356,038	174,201
O.	Other financial expenses	70,788	82,262
*	**Financial profit or loss**	**568,234**	**44,487**
Q.	Income tax on ordinary activities	1,999	507
Q 1.	– due	1,999	507
**	**Profit or loss from ordinary activities**	**14,791**	**-1,063,335**
R.	Extraordinary expenses	5,446	
*	**Extraordinary profit or loss**	**-5,446**	
***	**Profit or loss for the current period (+/-)**	**9,345**	**-1,063,335**
****	**Profit or loss before tax**	**11,344**	**-1,062,828**

Statement of changes in equity

(in CZK thousand)

Year ended 31.12.2010	Share capital	Share premium	Other capital funds	Other capital funds Gains or losses from the revaluation of assets and liabilities	Statutory reserve fund	Statutory and other funds from profit	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2008	**20,000,000**	**16,256,957**	**-906,542**	**5,636,133**	**11,864**	**165,870**		**-449,399**	**1,611,114**	**42,325,997**
Distribution of profit or loss					80,556	185,014	896,145	449,399	-1,611,114	
Creation of the social fund - other						9,335				9,335
Use of the social fund						-240,265				-240,265
Revaluation of non-current financial assets				-230,567						-230,567
Profit or loss for the current period									-1,063,335	
Other			-12,651							-12,651
Balance at 31 December 2009	**20,000,000**	**16,256,957**	**-919,193**	**5,405,566**	**92,420**	**119,954**	**896,145**		**-1,063,335**	**40,788,514**
Distribution of profit or loss							-896,145	-167,190	1,063,335	
Creation of the social fund with a charge against share premium		-186,884				186,884				
Creation of the social fund - other						10,367				10,367
Use of the social fund						-198,365				-198,365
Revaluation of non-current financial assets				-49,844						
Revaluation of derivatives				56,978						56,978
Profit or loss for the current period									9,345	
Other			-1,989							-1,989
Balance at 31 December 2010	**20,000,000**	**16,070,073**	**-921,182**	**5,412,700**	**92,420**	**118,840**		**-167,190**	**9,345**	**40,615,006**

Cash flow statement

(in CZK thousand)			
Year ended 31.12.2010		Year ended 31.12.2010	Year ended 31.12.2009
P.	**Opening balance of cash and cash equivalents**	**1,975,184**	**4,403,482**
	Cash flows from ordinary activities		
Z.	Profit or loss from ordinary activities before tax	16,791	-1,062,828
A.1.	Adjustments for non-cash transactions	942,413	1,618,936
A.1.1.	Depreciation of fixed assets	2,064,559	2,228,359
A.1.2.	Change in provisions and reserves	-24,833	-311,843
A.1.3.	Profit/(loss) on the sale of fixed assets	-924,497	-279,480
A.1.4.	Revenues from dividends and profit shares	-67,686	-62,193
A.1.5.	Interest expense and interest income	94,837	129,044
A.1.6.	Adjustments for other non-cash transactions	-199,967	-84,951
A.*	**Net operating cash flow before changes in working capital**	**959,204**	**556,108**
A.2.	Change in working capital	-335,146	282,179
A.2.1.	Change in operating receivables and other assets	-480,154	405,903
A.2.2.	Change in operating payables and other liabilities	210,451	147,376
A.2.3.	Change in inventories	-65,443	-271,100
A.**	**Net cash flow from operations before tax and extraordinary items**	**624,058**	**838,287**
A.3.	Interest paid	-76,565	-119,418
A.4.	Interest received	963	3,043
A.5.	Income tax paid from ordinary operations	-2,356	-507
A.6.	Receipts and expenditures relating to extraordinary activities	-5,446	
A.7.	Received dividends and profit shares	67,686	62,193
A.***	**Net operating cash flows**	**608,340**	**783,598**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-6,396,728	-4,322,092
B.2.	Proceeds from fixed assets sold	1,697,745	385,696
B.***	**Net investment cash flows**	**-4,698,983**	**-3,936,396**
	Cash flow from financial activities		
C.1.	Change in payables from financing	2,483,333	964,662
C.2.	Impact of changes in equity	-198,262	-240,162
C.2.3.	Other cash contributions made by partners	101	103
C.2.5.	Payments from capital funds	-198,363	-240,265
C.***	**Net financial cash flows**	**2,285,071**	**724,500**
F.	**Net increase or decrease in cash and cash equivalents**	**-1,805,572**	**-2,428,298**
R.	**Closing balance of cash and cash equivalents**	**169,612**	**1,975,184**

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1 General information

1.1. Background Information

České dráhy, a.s. (hereinafter the 'Company') was incorporated following its registration in the Register of Companies on 1 January 2003 as one of the legal successors of the former state organisation České dráhy. Additional details are presented in Note 1.5.

The Company's registered office is located at nábř. L. Svobody 1222, Prague 1.

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

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

The sole shareholder of the Company is the Czech Republic.

1.2. Principal Operations

Since 1 December 2007, the Company has been principally engaged in operating railway passenger transportation. Activities relating to the operation of railway freight transportation were spun-off to ČD Cargo, a.s. which was recorded in the Register of Companies as of 1 December 2007.

Pursuant to applicable legislation, the Company also operates railway routes. 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 the state organisation Railway Route Administration (Správa železniční dopravní cesty, státní organizace - 'SŽDC'). As of 30 June 2008, the Company sold part of its business to SŽDC as disclosed in Note 1.6. For this reason, the Company ceased to secure the operability of the railway route but it continues in its servicing.

In addition, the Company performs other activities related to the operation of transportation and transportation routes.

1.3. Organisational Structure

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

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

1.4. The Company's Bodies

The Company's bodies include the General Meeting, Board of Directors, Supervisory Board and Audit Committee.

The General Meeting is the supreme body of the Company. The sole shareholder of the Company is the State which exercises the rights of the General Meeting through the Steering Committee.

The Company's Bodies as of 31 December 2010		
	Position	Name
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.

The Company's Bodies as of 31 December 2010		
	Position	Name
BOARD OF DIRECTORS	Chairman	Petr Žaluda
	Member	Antonín Blažek
	Member	Michal Nebeský
	Member	Jiří Kolář
	Member	Milan Matzenauer

The Company's Bodies as of 31 December 2010	Position	Name
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 Jaroslav Král from the position of the Chairman and member of the Supervisory Board.
At its meeting held on 15 September 2010, the Steering Committee recalled members of the Supervisory Board Karel Březina, Tomáš Chalánek and Pavel Škvára and appointed Lukáš Hampl, Michael Hrbata, Miroslav Nádvorník and Radek Šmerda members of the Supervisory Board with effect from 16 September 2010.

At its meeting held on 8 October 2010, the Supervisory Board elected Lukáš Hampl Chairman of the Supervisory Board.

In relation to the change in the Commercial Code and the related changes in the Act on Auditors and according to the provisions of Section D in the Company's Articles of Association, the Company established the Audit Committee. It was established on 3 December 2009 by the Steering Committee of the Company.

The Company's Bodies as of 31 December 2010	Position	Name
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 Steering 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 fulfilling the management role in the Company's risk management system.

The Company's Bodies as of 31 December 2010		
	Position	Name
RISK MANAGEMENT COMMITTEE	Chairman	Petr Vohralík
	Member	Michal Nebeský
	Member	Jaroslav Král
	Member	Antonín Blažek
	Member	Milan Matzenauer

1.5. Formation and Incorporation of the Company

On the basis of Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended (the 'Transformation Act'), the Company was formed on 31 March 2002 and the state organisation Czech Railways discontinued its activities and operations on 1 January 2003 and the Company and the state organisation Railway Route Administration ('SŽDC') were formed as its legal successors.

SŽDC largely assumed the assets comprising railway routes while the Company largely assumed assets used to operate railway transportation and railway routes. In addition, SŽDC took over the bulk of receivables, payables and loans, while the Company assumed only trade receivables and payables before their due dates and receivables and payables arising from employment arrangements with its employees. Both entities assumed the assets and liabilities at their book values.

1.6. Sale of Part of the Company's Business

As of 1 July 2008, a contract for the sale of part of the business between the Company and SŽDC was entered into.

The selling price stated in the contract for the sale of part of the Company's business was CZK 11,852,101 thousand. The price was arrived at based on an expert's valuation of the part of the business.

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

2. Accounting Policies and general accounting principles

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

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

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

3. Summary of significant accounting policies

3.1. Tangible and Intangible Fixed Assets

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

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

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

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

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

Tangible assets with an acquisition cost greater than CZK 500 but less than CZK 40 thousand and intangible assets with an acquisition cost of less than CZK 60 thousand are expensed in the period of acquisition and are maintained only in the underlying operational records.

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

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

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

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

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

	Number of years
Buildings	30 – 50
Constructions	20 – 50
Railway vehicles	20 – 30
Machinery and equipment	8 – 20
Intangible assets	1.5-6

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

3.2. Non-Current Financial Assets

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

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

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

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

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

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

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

3.3. Inventory

Purchased inventory is valued at acquisition cost which also includes costs attributable to the acquisition, such as transportation costs, customs duties and other related indirect costs.
Inventory produced internally is valued at the internal costs of production including direct costs and an element of production overheads.

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

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

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

3.4. Receivables

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

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

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

3.5. Payables

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

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

3.6. Loans

Loans are stated at their nominal value.

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

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

3.7. Equity

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

The change in the value of the assets comprising the contribution between the formation date of the Company and its incorporation date as of 1 January 2003 was reported as a component of other capital funds. As of the incorporation date, pursuant to the Transformation Act, the Company assumed not only the assets that comprised the contribution but also other assets and liabilities. The aggregate net value of these other assets and liabilities was also reported as a component of other capital funds. Given that the aggregate net value of assets and liabilities assumed as of 1 January 2003 was lower than the value of the contribution as of 31 March 2002, the reported balance of other capital funds as of 1 January 2003 and subsequently also as of 31 December of the following years including 31 December 2010 is negative.

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

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

3.8. Reserves

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

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

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

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

3.9. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the fixed exchange rate announced by the Czech National Bank on the first day of each month. Payments are recorded at the rate prevailing on the payment date. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date.

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

3.10. Finance Leases

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

3.11. Hedging Derivatives

The Company records hedging derivatives in terms of Section 52 of Regulation No. 500/2020 Coll.

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

Gains or losses arising over the term of the hedge are recorded as income or expenses, as appropriate, during the year.

3.12. Income Taxes

3.12.1. Current Tax Payable

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

3.12.2. Deferred Taxation

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

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

3.13. Contractual Fines and Default Interest

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

3.14. State Grants and Settlement of Public Service Commitments from the State Budget and Regional Budgets

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

Grants to settle public service commitments received from the State budget and regional budgets, the Complementary Social Programme grant, and the grant to settle a provable loss on discounted student fare are included in other operating income.

3.15. Revenue Recognition

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

The Company operates railway routes comprising assets owned by the State. Expenses and income associated with these activities are recognised in the profit and loss account in the period to which they relate on an accruals basis.

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

3.16. Use of Estimates

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

3.17. Changes in Accounting Policies

In the year ended 31 December 2010, the Company did not use any accounting policies different from those adopted in the previous reporting period.

3.18. Extraordinary Expenses and Income

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly. These expenses and income include, for example, corrections of expenses and income of prior accounting periods, if they are material.

3.19. Cash Flow Statement

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

(CZK '000)	31 Dec 2010	31 Dec 2009
Cash on hand and cash in transit	52 351	50 598
Cash at bank	117 261	724 586
Short-term securities and investments	0	1 200 000
Total cash and cash equivalents	**169 612**	**1 975 184**

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

4. Additional information on the balance sheet and profit and loss account

4.1. Intangible Fixed Assets

(CZK '000) Acquisition cost	Balance at 1 Jan 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2010
Research and development	104,038	0	166	0	103,872	0	7,615	0	96,257
Software	713,056	10,674	29,051	-169,757	524,922	71,482	2,287	0	594,117
Valuable rights	1,943,153	88,554	8,326	169,757	2,193,138	8,497	484	181	2,201,332
Other assets	760	0	0	0	760	0	0	0	760
Intangible assets under construction	84,501	142,181	98,188	0	128,494	99,385	95,685	0	132,194
Total	**2,845,508**	**241,409**	**135,731**	**0**	**2,951,186**	**179,364**	**106,071**		**3,024,660**

(CZK '000) Accumulated amortisation	Balance at 1 Jan 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2010
Nehm. výsl. výzk. a vývoje	102,427	565	166	0	102,826	525	7,614	0	95,737
Software	305,258	132,682	36,598	-28,251	373,091	120,717	1,773	0	492,035
Ocenitelná práva	1,912,724	37,876	7,706	28,251	1,971,145	50,277	0	0	2,021,422
Jiný majetek	760	0	0	0	760	0	0	0	760
Nedokončený majetek	0	0	0	0	0	0	0	0	0
Celkem	**2,321,169**	**171,123**	**44,470**	**0**	**2,447,822**	**171,519**	**9,387**		**2,609,954**

(CZK '000) Provisions	Balance at 1 Jan 2009	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Balance at 31 Dec 2010
Software	38,305	0	38,305	0	0	0	0

(CZK '000) Net book value	Balance at 1 Jan 2009	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Research and development	1,611	1,046	520
Software	369,493	151,831	102,082
Valuable rights	30,429	221,993	179,910
Other assets	0	0	0
Intangible assets under construction	84,501	128,494	132,194
Total	**486,034**	**503,364**	**414,706**

In the year ended 31 December 2009, the Company made a significant reclassification of intangible fixed assets from the 'software' class to the 'valuable rights' class in the aggregate amount of CZK 169.8 million. The reclassification included adjusting the amortisation period and appropriately reclassifying accumulated amortisation charges.

Intangible fixed assets specifically comprise the Company's logo which was valued at CZK 1,729 million by an independent appraiser in 1997. The Company recognises accumulated amortisation in respect of the logo in the same amount. Intangible fixed assets include ARES, In-card, UNIPOK, IS OPT, ISOŘ and items relating to the SAP R/3 accounting software and its modules.

Intangible assets under construction primarily relate to the development of software for train monitoring, train traffic management and expenditure relating to the SAP R/3, ISOŘ, IS-PRM, IS-ADPV, In-cards, and IS-KADR software modules.

4.2. Tangible Fixed Assets

(CZK '000) Acquisition cost	Balance at 1 Jan 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2010
Land	6,475,169	12,563	80,148		6,407,584	41,611	55,188	-181	6,393,826
Buildings	16,669,457	577,332	134,296	-3,114	17,109,379	386,403	184,406	-13,429	17,297,947
Individual movable assets	39,831,871	4,565,263	738,635	3,114	43,661,613	4,584,724	1,600,996	13,496	46,658,837
■ Machinery, equipment, and furniture and fixtures	2,464,977	110,609	114,356	0	2,461,230	58,731	142,011	3,897	2,381,847
■ Vehicles	37,246,130	4,454,102	614,464	3,114	41,088,882	4,525,631	1,446,776	9,637	44,177,374
■ Other	120,764	552	9,815	0	111,501	362	12,209	-38	99,616
Other assets	4,219	0	84	0	4,135	65	368	0	3,832
Tangible assets under construction	714,261	5,129,379	5,164,203	0	679,437	5,355,120	5,120,790	0	913,767
Prepayments	2,012,310	1,692,902	1,840,717	0	1,864,495	3,453,723	2,299,936	0	3,018,282
Total	**65,707,287**	**11,977,439**	**7,958,083**	**0**	**69,726,643**	**13,821,646**	**9,261,684**	**-114**	**74,286,491**

(CZK '000) Accumulated depreciation	Balance at 1 Jan 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2009	Additions	Disposals	Reclassifications	Balance at 31 Dec 2010
Buildings	7,902,375	337,501	88,418	-2,954	8,148,504	337,137	129,528	-3,361	8,352,752
Individual movable assets	19,686,490	1,728,135	403,835	2,954	21,013,744	1,558,668	1,202,381	3,361	21,373,392
■ Machinery, equipment, and furniture and fixtures	1,762,103	106,695	92,079	0	1,776,719	103,620	138,958	3,255	1,744,636
■ Vehicles	17,824,342	1,617,968	302,518	2,954	19,142,746	1,452,314	1,051,353	144	19,543,851
■ Other	100,045	3,472	9,238	0	94,279	2,734	12,070	-38	84,905
Other assets	184	0	0	0	184	13	123	0	74
Tangible assets under construction	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0
Total	**27,589,049**	**2,065,636**	**492,253**	**0**	**29,162,432**	**1,895,818**	**1,332,032**	**0**	**29,726,218**

(CZK '000) Provisions	Balance at 1 Jan 2009	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Balance at 31 Dec 2010
Land	5,875	0	1,575	4,300	3,860	4,300	3,860
Buildings	54,089	18,569	8,842	63,816	58,386	63,816	58,386
Individual movable assets	1,588,901	1,174,572	1,489,141	1,274,332	1,083,236	1,274,332	1,083,236
■ Machinery, equipment, and furniture and fixtures	1,929	238	1,929	238	171	238	171
■ Vehicles	1,586,972	1,174,334	1,487,212	1,274,094	1,083,065	1,274,094	1,083,065
■ Other	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0
Tangible assets under construction	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0
Total	**1,648,865**	**1,193,141**	**1,499,558**	**1,342,448**	**1,145,482**	**1,342,448**	**1,145,482**

(CZK '000) Net book value	Balance at 1 Jan 2009	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	6,469,294	6,403,284	6,389,966
Buildings	8,712,993	8,897,059	8,886,809
Individual movable assets	18,556,480	21,373,537	24,202,209
■ Machinery, equipment, and furniture and fixtures	700,945	684,272	637,040
■ Vehicles	17,834,816	20,672,042	23,550,458
■ Other	20,719	17,223	14,711
Other assets	4,035	3,951	3,758
Tangible assets under construction	714,261	679,437	913,767
Prepayments	2,012,310	1,864,495	3,018,282
Total	**36,469,373**	**39,221,763**	**43,414,791**

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

Vehicles principally comprise rail vehicles (locomotives, passenger coaches, wagons and other rail vehicles) used in the course of providing passenger transportation services. On the basis of stock count procedures and analyses, the Company has identified asset components where there is significant uncertainty regarding their future utilisation. These assets have been provisioned as equal to the difference between the net book value and estimated fair value (typically the net proceeds of the sale or disposal of the relevant asset). In the years ended 31 December 2010 and 2009, the Company recognised a provision against the product of the 680 series tilting trains (Pendolino) in the amounts of CZK 960,342 thousand and CZK 1,154,680 thousand, respectively.

Principal items of prepayments made for tangible fixed assets are prepayments for the acquisition of the 471 series electric locomotives in the amount of CZK 1,356,000 thousand and the 380 series electric three-system locomotives in the amount of CZK 785,217 thousand.

Principal additions to tangible assets include the acquisition of the 471 series electric locomotives in the amount of CZK 2,411,291 thousand and modernisation of the 814,914 engine locomotives of CZK 1,225,595 thousand.

4.2.1. Pledged Assets

The Company holds assets at the net book value of CZK 3,595,799 thousand that were pledged as security, of which train sets of the 471 series amounted to CZK 2,502,260 thousand, Ampz passenger coaches amounted to CZK 461,643 thousand and the Bmz passenger coaches amounted to CZK 631,896 thousand.

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

The aggregate amount of tangible fixed assets not reported on the face of the balance sheet as of 31 December 2010 was CZK 881,272 thousand (31 December 2009: CZK 952,194 thousand). These include items worth less than CZK 40 thousand that are recorded only in the underlying operating records. These items are recognised in expenses at the moment of acquisition in accordance with applicable legislation.

4.2.3. Investment Grants

Investment grants received in the year ended 31 December 2010 amounted to CZK 104,914 thousand (31 December 2009: CZK 371,645 thousand), of which the grants from the State Fund of Transport Infrastructure were not used in the year ended 31 December 2010 as they were transferred to SŽDC (2009: CZK 53,515 thousand).

4.2.4. Assets Held under Finance Leases

(CZK '000)	Date of inception	Term in months	Total lease value	Payments made at 31 Dec 2009	Payments made at 31 Dec 2010	Due in 2011	Due in the following years
854 series motor vehicles	Jan 2006	126	296,562	105,224	133,506	28,425	134,631
WLABmz wagon-lits	March 2007	120	865,302	253,452	335,785	84,059	445,458
28 modernised wagons	Dec 2007	132	801,110	86,756	167,005	79,263	554,842
4 modernised wagons	Dec 2007	133	122,036	11,541	23,738	12,160	86,138
7 modernised wagons	Dec 2007	134	211,799	18,729	39,940	20,603	151,256
1 modernised wagons	Dec 2007	135	30,779	2,390	5,486	3,066	22,227
39 not modernised wagons	June 2010	138	577,103	0	0	0	577,103
19 not modernised wagons	June 2010	139	284,181	0	0	3,698	280,483
19 locomotives	June 2010	126	914,770	0	0	0	914,770
Total			**4,103,642**	**478,092**	**705,460**	**231,274**	**3,166,908**

Other assets held under operating leases recorded off-balance sheet amounted to CZK 7,891 thousand and CZK 11,225 thousand in the years ended 31 December 2010 and 2009, respectively.

4.3. Non-Current Financial Assets

4.3.1. Equity Investments in Subsidiaries

(CZK '000)						As of 31 December 2010	
Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2010	Valuation at 31 Dec 2010
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-2,765	51%	51,932	*)	26,485,
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66%	-898	*)	0
ČD Reality a. s.	Prague 6, Václavkova 169/1	1,020	2,803	51%	7,497	*)	3,823
Dopravní vzdělávací institut, a. s.	Prague 3, Husitská 42/22	3,200	9,682	100%	12,882	*)	12,882
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51%	-6,759	*)	0
ČD travel, s. r. o.	Prague 1, Na Příkopě 988/31	7,500	1,212	51,72%	16,850	*)	8,712
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	330,414	160,886	100%	491,078	57,915,	491,300
ČD – Telematika a. s.	Prague 3, Pernerova 2819/2a	673,152	554,869	59,31%	2,070,513	*)	1,228,021
DPOV, a. s.	Přerov, Husova 635/1b	386,395	116,665	100%	500,921	33,853	503,060
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	3,577,750**)	4,389,006	100%	7,966,756	-427,113	7,966,756
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-115	51%	1,774	*)	905
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-369	51%	1,276	*)	651
Total		**5,012,401**	**5,230,194**				**10,242,595**

*) The final financial statements for the year ended 31 December 2010 were not provided
**) In 2010, the share capital of ČD Cargo decreased by CZK 306 million.

(CZK '000)						As of 31 December 2009	
Business name of the entity	Registered office	Cost	Revalua-tion	Ownership percentage	Equity	Profit or loss for 2009	Valuation at 31 Dec 2009
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-6,067	51%	42,295	12,197	23,183
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66%	-574	-434	0
ČD Reality a. s.	Prague 6, Václavkova 169/1	1,020	2,889	51%	7,496	-139	3,909
Dopravní vzdělávací institut, a. s.	Prague 3, Husitská 42/22	3,200	7,105	100%	10,305	4,094	10,305
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51%	-5,029	-1,643	0
ČD travel, s. r. o.	Prague 1, Na Příkopě 988/31	7,500	638	51,72%	15,739	952	8,138
Traťová strojní společnost, a. s.	Hradec Králové, Jičínská 1605	287,483	150,799	51%	859,376	65,573	438,282
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	330,414	138,513	100%	468,927	65,850	468,927
ČD – Telematika a. s.	Prague 3, Pernerova 2819/2a	673,152	536,923	59,31%	2,040,256	3,900	1,210,075
DPOV, a. s.	Přerov, Husova 635/1b	386,395	86,868	100%	473,263	37,617	473,263
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	3,883,750	4,346,546	100%	8,230,296	-427,714	8,230,296
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-74	51%	1,855	-62	946
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-290	51%	1,432	-251	730
Total		**5,605,884**	**5,262,170**				**10,868,054**

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

4.3.2. Equity Investments in Associates

(CZK '000)						As of 31 December 2010	
Business name of the entity	Registered office	Cost	Revalua-tion	Ownership percentage	Equity	Profit or loss in 2010	Valuation at 31 Dec 2010
CR-City a. s.	Prague 3, Olšanská 1a	680	-540	34%	411	*)	140
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34%	-8,935	*)	0
JLV, a. s.	Prague 4, Chodovská 3/228	20,000	96,386	38.79%	300,041	**)	116,386
CR office a.s.	Prague 3, Olšanská 2643/1a	680	-680	34%	-4,052	*)	0
RS hotel a.s.	Prague 3, Olšanská 2643/1a	680	-200	34%	1,412	*)	480
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	28,732	34%	84,728	*)	28,800
WHITEWATER a.s.	Prague 3, Olšanská 2643/1a	680	-238	34%	1,302	*)	442
ČD Restaurant, a.s.	Prague 3, Prvního pluku 81/2a	8,000[1]	395	40%	20,988	*)	8,395
Scrl BCC	Av.De la Porte de Gal 40, Brusel	92	708	20%	3,999	*)	800
Total		**31,560**	**123,883**				**155,443**

*) Companies did not provide the final financial statements for the year ended 31 December 2010
**) The financial statements for the year ended 31 December 2010 were not provided
[1] In 2010, the cost was increased by 4 shares of CZK 4,000 million

In November 2010, the Company noted and accounted for its possession of equity securities in Scrl BCC Brusel in the amount of CZK 92 thousand.

(CZK '000)						As of 31 December 2009	
Business name of the entity	**Registered office**	**Cost**	**Revalua-tion**	**Ownership percentage**	**Equity**	**Profit or loss in 2009**	**Valuation at 31 Dec 2009**
CR-City a. s.	Prague 3, Olšanská 1a	680	-408	34%	825	-,261	272
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34%	-5,750	-837	0
JLV, a. s.	Prague 4, Chodovská 3/228	20,000	95,367	38.79%	297,414	11,150	115,367
CR office a.s.	Prague 3, Olšanská 2643/1a	680	-680	34%	1,252	-5,376	0
RS hotel a.s.	Prague 3, Olšanská 2643/1a	680	-168	34%	1,515	-,66	512
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	44,793	34%	131,944	61,814	44,861
WHITEWATER a.s.	Prague 3, Olšanská 2643/1a	680	-186	34%	1,408	-116	494
ČD Restaurant, a.s.	Prague 3, Prvního pluku 81/2a	4,000[1]	3,713	40%[1]	19,283	1,925	7,713
Total		**27,468**	**141,751**				**169,219**

[1] České dráhy holds four shares, ie, the 20 percent equity investment and paid a prepayment of CZK 4,000 thousand for another four shares.

4.3.3. Other Equity Investments and Securities

(CZK '000)		
Type of security and investment	**31 Dec 2010**	**31 Dec 2009**
PraK, a. s.	850	850
Hit Rail B.V.	4,017	4,017
EUROFIMA	262,873	262,873
INTERCONTAINER-INTERFRIGO, o. s.	0	5,189
INTERNATIONALE SPEDITION Děčín a. s.	8	8
Total	**267,748**	**272,937**

The equity investment of the Company in EUROFIMA is 1 percent. This equity investment allows the Company to draw finances of this institution, as detailed in Note 4.9. EUROFIMA is a multinational company engaged in the funding of purchases of rail vehicles and development of railway transportation in Europe.

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

4.4 Inventory

(CZK '000)	31 Dec 2010	31 Dec 2009
Spare parts for machinery and equipment	74,000	77,274
Spare parts and other components for rail vehicles and locomotives	1,182,615	1,124,846
Other spare parts, tools and equipment and their components	99,169	122,693
Fuels, lubricants and other oil products	20,888	25,131
Work clothes, work shoes, protective devices	250,735	233,402
Other	98,484	77,101
Total cost	**1,725,891**	**1,660,447**
Provisions	8,532	8,039
Total net book value	**1,717,359**	**1,652,408**

The Company records provisions against redundant inventory components and/or inventory that carries the risk of its net realisable value being lower than cost.

4.5. Short-Term Receivables

4.5.1. Trade Receivables

(CZK '000)			Past due (in days)						
Year	Category	Before due date	1 - 30 days	31 - 90	91 - 180	181 - 365	365 and more	Total	Total
2010	Provisions	577,353	24,095	22,163	9,937	221,705	59,202	337,102	**914,455**
	Net	-8	0	0	-35	-211,476	-54,794	-266,305	**-266,313**
	Gross	577,345	24,095	22,163	,9,902	10,229	4,408	70,797	**648,142**
2009	Provisions	327,704	41,862	23,834	47,115	15,151	49,734	177,696	**505,400**
	Net	0	0	-363	-36,978	-15,151	-49,734	-102,226	**-102,226**
	Netto	327,704	41,862	23,471	10,137	0	0	75,470	**403,174**

4.5.2. Intercompany Receivables

(CZK '000)		
Entity	**Balance at 31 Dec 2010**	**Balance at 31 Dec 2009**
Short-term receivables		
Trade receivables		
ČD - Telematika a. s.	5,902	3,787
Traťová strojní společnost, a. s.	0	7,829
Výzkumný Ústav Železniční, a. s. ***	351	100
JLV, a. s.**	801	1,112
DPOV, a. s.	65,652	50,947
ČD Cargo, a. s.	331,666	123,490
Total short-term intercompany receivables*	**404,372**	**187,265**
Other than intercompany receivables	510,083	318,135
Total short-term intercompany receivables - gross	**914,455**	**505,400**
Provision against receivables	-266,313	-102,226
Total short-term trade receivables - net	**648,142**	**403,174**

* Receivables from other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany receivables..
**On 28 December 2009, the name of the company changed from Jídelní a lůžkové vozy, a.s. to JLV, a.s.
*** As of 31 December 2010, Traťová strojní společnost, a.s. was not part of the Group.

4.5.3. Tax Receivables

As of 31 December 2010 and 2009, tax receivables amounted to CZK 338,088 thousand and CZK 290,189 thousand, respectively, and largely consisted of receivables arising from VAT.

4.5.4. Prepayments Made

As of 31 December 2010 and 2009, short-term prepayments made amounted to CZK 130,621 thousand and CZK 140,889 thousand, respectively, and largely consisted of prepayments made for the supply of services (electricity, heat, etc.).

4.6. Estimated Receivables

(CZK '000)		
	Balance at 31 Dec 2010	**Balance at 31 Dec 2009**
Cross-border rentals for passenger coaches	407,987	454,480
Income from international transportation - passenger transportation	66,454	53,799
Other	163,952	187,291
Total estimated receivables	**638,393**	**695,570**

Cross-border rentals for passenger coaches (from operating performance in international passenger transportation before 31 December 2010) are recognised in income on a monthly basis on the temporary assets accounts. The final billing is performed in accordance with the RIC agreement within four months after the expiry of the train transport flow chart.

Other estimated receivables include the estimate of damages for the accident in Studénka of CZK 66 million.

4.7. Grants

The Company uses the grant to settle the loss from passenger transportation from the state budget and budget of regions. As of 31 December 2010, unsettled receivables from the state budget and budgets of regions amounted to CZK 34,094 thousand.

In addition, the Company is a recipient of grants from EU funds and the state budget to cover expenses for special programmes in railway transportation. Received prepayments before the final billing of individual programmes as of 31 December 2010 amount to CZK 11,298 thousand (2009: CZK 30,063 thousand).

4.8. Equity

The Company's share capital is composed of the investment made by the Czech State as the sole shareholder, represented by the Czech Transportation Ministry. The share capital consists of 20 ordinary registered shares with a nominal value of CZK 1 billion. The shares are placed with the shareholder, the Czech Transportation Ministry, and are transferable only subject to the prior consent of the Czech Government.

Information about the substance of individual equity components is presented in Note 3.7 to the financial statements.

In 2010, the change in the value of revaluation of assets and liabilities amounts to CZK 7,134 thousand, of which the revaluation of non-current financial assets using the equity method of accounting amounts to CZK (49,844) thousand and the revaluation of derivative financial instruments amounts to CZK 56,978 thousand. In 2009, the revaluation of non-current financial assets amounted to CZK 67,805 thousand.

The increase in statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 186,884 thousand from the share premium. The amount of CZK 186,884 thousand represents 2 percent of the annual expenses recognised for salaries and compensation for salaries for the year ended 31 December 2009. Other recognition of the social fund of CZK 10,367 thousand includes repayments of the loans from employees and other income.

The General Meeting approved the proposal for the settlement of the 2009 loss of CZK 1,063,335 thousand. The amount of CZK 896,145 thousand was settled using retained earnings and the amount of CZK 167,190 thousand was transferred to accumulated losses.

4.9. Reserves

(CZK '000)	Balance at 1 Jan 2009	Charge	Use	Balance at 31 Dec 2009	Charge	Use	Balance at 31 Dec 2010
Reserve for rents	10,819	15,220	15,386	10,653	11,223	10,653	11,223
Reserve for legal disputes	25,585	26,687	25,585	26,687	275,601	26,687	275,601
Reserve for outstanding vacation days	91,816	52,693	91,816	52,693	47,645	52,693	47,645
Reserve for removal of the environmental burden	0	35,130	0	35,130	30,874	35,130	30,874
Total reserves	**128,220**	**129,730**	**132,787**	**125,163,**	**365,343**	**125,163**	**365,343**

In the first half of 2009, the 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 Brodkov u Přerova between 2010 and 2012. The budget of the clean-up is CZK 223,703 thousand and is planned to take three years. The funding of CZK 182,117 thousand will be provided from the Environmental Operational Programme in the form of an EU subsidy – Cohesion Fund and CZK 10,713 thousand will be provided from the Slovakia – Czech Republic Cross-border Cooperation Project, Chapter 15. The Company will pay the difference in total expenses of CZK 30,874 thousand from its own funds. A reserve was recognised in respect of these expenses in the financial statements for the year ended 31 December 2010.

In 2010, the Company reclassified the amount of CZK 254 million from estimated payables to reserves for legal disputes. This is a fine from the Anti-Monopoly Office from 2007 for the breach of the rules of economic competition in freight transportation.

All of the reserves charged in the year ended 31 December 2010 are non-tax deductible.

4.10. Long-term Payables

(CZK '000)	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Payable to EUROFIMA	4,134,850	4,366,672
Issued bonds	2,000,000	2,000,000
Other	66,951	52,417
Total long-term payables	**6,201,801**	**6,419,089**

In 2004, the Company received a long-term loan from EUROFIMA to finance the purchase of rail vehicles. This loan was increased in the year ended 31 December 2006 by EUR 30 million and by another CZK 30 million in the year ended 31 December 2007. This loan is collateralised by a state guarantee. 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.

To increase its investment funds, the Company issued bonds with a three-year redemption period and fixed coupon of 5 percent p.a. on 14 December 2009 for the first time in its history. The volume of the issue was CZK 2 billion. The issue was not quoted and was intended for private investors. The principal manager of the issue was ČSOB. The issue rate was 98.38 percent as of the issue date.

Other long-term payables in 2010 and 2009 predominantly included construction investments.

4.11. Short-Term Payables

4.11.1. Trade Payables

(CZK '000)			Past due (in days)						
Year	Category	Before due date	0 – 90 days	91 - 180	181 – 365	365-730	731 and greater	Total	Total
2010	Short-term	4,292,280	450,417	6,942	15,505	5,260	6,591	484,715	**4,776,995**
2009	Short-term	4,180,093	504,981	354	-837	8,679	11,822	524,999	**4,705,092**

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

4.11.2. Intercompany Payables

(CZK '000)		
Entity	**Balance at 31 Dec 2010**	**Balance at 31 Dec 2009**
Short-term payables		
Trade payables		
ČD – Telematika a. s.	131,308	143,612
Traťová strojní společnost, a. s. **	0	123
Výzkumný Ústav Železniční, a. s.	815	926
JLV, a. s.	26,425	35,583
DPOV, a. s.	298,249	250,458
ČD Cargo, a. s.	5,483	10,784
Total short-term intercompany payables*	**462,280**	**441,486**
Other than intercompany payables	4,314,715	4,263,606
Total short-term trade payables	**4,776,995**	**4,705,092**

* Payables to other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany payables.
** As of 31 December 2010, Traťová strojní společnost, a.s. is not part of the Group.

According to the verified valuation of the non-cash investment as of 1 December 2007, the value of the non-cash investment did not match to the value determined upon the formation of ČD Cargo. The difference of CZK 306 million was recorded as part of short-term payables - Payables to partners and association members. In the year ended 31 December 2010, this receivable arising from the decrease in the share capital was offset against the payable in the identical amount.

4.11.3. Tax Payables

As of 31 December 2010, tax payables were largely composed of personal income tax from dependent activities amounting to CZK 119,934 thousand (31 December 2009: CZK 110,070 thousand).

4.11.4. Prepayments Received

As of 31 December 2010, short-term prepayments received amounted to CZK 149,779 thousand (31 December 2009: CZK 138,110 thousand) and were largely composed of rental prepayments.

4.12. Estimated Payables

(CZK '000)		
	Balance at 31 Dec 2010	**Balance at 31 Dec 2009**
Fees for the use of RIC vehicles	413,186	442,110
Costs of international transportation – cross-border transportation	58,903	32,248
Other	404,736	571,823
Total estimated payables	**876,825**	**1 046,181**

The fees for the use of CD coaches abroad (from services in the international passenger transportation before 31 December 2010) are recognised in expenses on a monthly basis through temporary payables. The final billing is performed in accordance with the RIC agreement within four months after the expiry of the train transport flow chart. Other estimated payables largely include unbilled supplies for 2010 and accrued lease instalments.

4.13 Bank Loans

Long-term Bank Loans

(CZK '000)					
Bank	Currency	Balance at 31 Dec 2010	Balance at 31 Dec 2009	Interest rate	Collateral form
ČSOB	EUR	770,392	1,084,780	3M EURIBOR + 0.5	State guarantee
Total		**770,392**	**1,084,780**		

The Company has entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium are Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The loan has been provided to finance the renovation of the Company's rolling stock and is collateralised by a state guarantee issued by the Czech Finance Ministry. This guarantee serves to collateralise the principal balance and interest. As of 31 December 2006, the whole loan facility of EUR 92,065 thousand was drawn. The Company began repaying the loan principal on 25 May 2005 (repayments on 25 May and 25 November each year). As of 31 December 2010, EUR 51,075.5 thousand was repaid from the aggregate loan facility and the principal of EUR 40,989.5 thousand remains to be repaid between 2011 and 2014. The final maturity date of the loan is 25 November 2014.

Short-Term Bank Loans and Financial Borrowings

Short-term loans include the use of an overdraft loan and a short-term portion of bank loans. Short-term borrowings include 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 Company with funding. The issued bills of exchange and the drawn overdraft loan are used primarily for liquidity management when the Company 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.

As part of the approved bills of exchange programme, the Company used finances of CZK 2,064,000 thousand as of 31 December 2010 through bills of exchange.

As of 31 December 2010, the portion of the long-term loan repayable within one year from the balance sheet date is CZK 256,798 thousand.

As of 31 December 2010, the overdraft facilities with KB and ČSOB were used in the amounts of CZK 567,242 thousand and CZK 156,641 thousand, respectively.

The amount of capitalised interest and relating fees on the long-term banking loan from ČSOB for the year ended 31 December 2010 was CZK 18,118 thousand, of which interest amounted to CZK 15,309 thousand and fees amounted to CZK 2,809 thousand. Interest on the loan from ČSOB is reported as interest expenses of the current period after train sets of the 680 series were put into use. In the year ended 31 December 2010, EUR was translated into CZK using the Czech National Bank's exchange rate of CZK 25.060/EUR 1 effective as of 31 December 2010.

4.14. Derivative Financial Instruments

(CZK '000)		
	31 December 2010	
	Valuation differences in the use of the fair value	Total
Cash flow hedging derivatives	56,978	56,978
Total	**56,978**	**56,978**

In the year ended 31 December 2010, the Company concluded a transaction, the subject of which is the hedging of the price of the purchased oil of 2x 14 155,20MT for the period from January 2010 to January 2013. The hedging is concluded with ING Bank N.V. and Citi Bank Europe plc.

In order to hedge the risk from long-term loans, the Company concluded a transaction in 2010, the subject of which is the interest hedging of 2x EUR 30 million with the fixed interest rates of 2.28% and 2.58 %. The transactions will expire in April 2016 and April 2017. The hedging is concluded with Crédit Agricole Corporate and Investment Bank S.A. and Citi Bank Europe plc.

4.15. Income Taxes

4.15.1. Tax Payable

The corporate income tax base for the year ended 31 December 2010 net of tax losses from prior taxation periods is CZK 0. Utilisable losses at the end of 2010 and 2009 amount to CZK 5,892,727 thousand and CZK 7,552,628 thousand, respectively. The difference between the accounting loss and the tax base is predominantly due to the difference between depreciation for accounting and tax purposes.

In the year ended 31 December 2010, the Company paid taxes from the individual tax base which included income from dividends received from abroad for 2009 (EUROFIMA and HITRAIL) in the amount of CZK 567 thousand, prepayment for the income tax for 2010 in the amount of CZK 357 thousand which was calculated from an additionally assessed income tax for 2008 after the inspection by the Taxation Authority in 2010.

4.15.2. Deferred Taxation

The Company has determined a deferred tax asset as follows:

(CZK '000)	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Tangible and intangible fixed assets	-531,026	-932,623
Provisions against fixed assets	216,908	254,248
Trade receivables	8,497	14,621
Inventory	1,621	1,528
Reserves	21,155	23,781
Unpaid contractual fines	-12,412	-543
Unpaid supplier contractual fines	3,479	1,337
Accumulated tax loss	1,119,618	1,451,060
Derivative financial instruments	-10,735	0
Total deferred tax asset - unrecognised	**817,111**	**813,409**

The Company has decided not to recognise the deferred tax asset on the grounds of prudence and due to the uncertainty regarding the availability of future taxable profits.

4.16. Accrued Expenses and Deferred Income

Accrued expenses predominantly comprise the interest and fees from the loan from Eurofima and leases.

Deferred income includes rental income paid in advance, specifically the rental of the gas station leased to OMV, which was prepaid for 20 years.

4.17. Income from the Sale of the Company's Products and Services

(CZK '000)	Year ended 31 Dec 2010			Year ended 31 Dec 2009		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income from passenger transportation	4,698,629	1,817,777	6,516,406	4,588,101	1,936,976	6,525,077
Income from other transportation	34,512	0	34,512	62,329	0	62,329
Income from securing railway routes/servicing the route	5,194,373	0	5,194,373	5,320,273	0	5,320,273
Income from other services	1,110,294	0	1,110,294	1,052,401	0	1,052,401
Income from the sale of the Company's products and services	**11,037,808**	**1,817,777**	**12,855,585**	**11,023,104**	**1,936,976**	**12,960,080**

Cross-border income includes the share of the Company of income from the international transportation of goods and passengers, border area services and sales from the cross-border rent of coaches and wagons.

Income from securing railway routes represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 5,194,373 thousand (2009: CZK 5,320,273 thousand). A description of the transactions between the Company and SŽDC is provided in Note 7.2.

Income from other services includes proceeds from the other activities of the Company, specifically income from the lease of land, buildings and non-residential premises and apartments, income for the commercial-technical services, income from heat and electricity distribution.

4.18. Related Parties Transactions

4.18.1. Income Generated with Related Parties

(CZK '000)					2010
Entity	Relation to the Company	Material	Services	Other income	Total
ČD – Telematika a. s.	Subsidiary	6	19,772	377	20,155
Traťová strojní společnost, a. s.	Subsidiary	21,407	1,662	26	23,095
Výzkumný Ústav Železniční, a. s.	Subsidiary	25	2,350	0	2,375
DPOV, a.s.	Subsidiary	143,885	66,359	990	211,234
ČD Cargo, a. s.	Subsidiary	756,218	183,644	5,866	945,728
JLV, a. s.**	Associate	0	8,982	0	8,982
Total		**921,541**	**282,769**	**7,259**	**1,211,569**

(CZK '000)					2009
Entity	Relation to the Company	Material	Services	Other income	Total
ČD – Telematika a. s.	Subsidiary	20	17,696	2,532	20,248
Traťová strojní společnost, a. s.	Subsidiary	33,912	3,084	24	37,020
Výzkumný Ústav Železniční, a. s.	Subsidiary	10	2,076	3	2,089
DPOV, a.s.	Subsidiary	133,544	44,887	1,036	179,467
ČD Cargo, a. s.	Subsidiary	673,010	191,537	30,666	895,213
JLV, a. s.**	Associate	0	675	0	675
Total		**840,496,**	**259,955**	**34,261**	**1,134,712**

*Income from other related parties, except the above noted, was deemed immaterial and was not disclosed.
**On 28 December 2009, the name of the company changed from Jídelní a lůžkové vozy, a.s. to JLV, a.s.

4.18.2. Purchases from Related Parties

(CZK '000)					2010
Entity	Relation to the Company	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	Subsidiary	15,432	265,013	5	280,450
Traťová strojní společnost, a. s.	Subsidiary	0	0	0	0
Výzkumný Ústav Železniční, a. s.	Subsidiary	18	1,341	0	1,359
DPOV, a.s.	Subsidiary	23,105	661,020	193	684,318
ČD Cargo, a.s.	Subsidiary	2,688	29,187	473	32,348
JLV, a. s.**	Associate	0	127,929	0	127,929
Total		**41,243**	**1,084,490**	**671**	**1,126,404**

(CZK '000)					2009
Entity	Relation to the Company	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	Subsidiary	20,278	248,529	35	268,842
Traťová strojní společnost, a. s.	Subsidiary	19	430	0	449
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	1,389	0	1,389
DPOV, a.s.	Subsidiary	75,470	599,119	158	674,747
ČD Cargo, a.s.	Subsidiary	7,446	41,238	870	,49,554
JLV, a. s.**	Associate	0	126,226	0	,126,226
Total		**103,213**	**1,016,931**	**1,063**	**1,121,207**

*Purchases from other related parties, except for the above noted, are deemed immaterial and were not disclosed.
**On 28 December 2009, the name of the company changed from Jídelní a lůžkové vozy, a.s. to JLV, a.s.

4.18.3. Purchases and Sales of Fixed Assets and Financial Assets with Related Parties

(CZK '000)			Sales in 2010
Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a. s.	Subsidiary	0	0
Traťová strojní společnost, a. s.	Subsidiary	0	0
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	0
DPOV, a.s.	Subsidiary	0	18,632
ČD Cargo, a.s.	Subsidiary	0	9,040
JLV, a. s.**	Associate	0	0
Total		**0**	**27,672**

Sales of fixed assets of DPOV, a.s. include sales of land. In ČD Cargo, a.s., land amounts to CZK 3,100 thousand of the aggregate amount of sold tangible fixed assets.

(CZK '000)			Sales in 2009
Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a. s.	Subsidiary	0	8,450
Traťová strojní společnost, a. s.	Subsidiary	0	10,257
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	0
DPOV, a.s.	Subsidiary	0	19,680
ČD Cargo, a.s.	Subsidiary	0	41,424
JLV, a. s.**	Associate	0	0
Total		**0**	**79,811**

(CZK '000)			Purchases in 2010
Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
Traťová strojní společnost, a. s.	Subsidiary	52,655	1,421
DPOV, a.s.	Subsidiary	0	97,247
ČD Cargo, a.s.	Subsidiary	0	0
Total		**52,655**	**99,668**

(CZK '000)			Purchases in 2009
Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets
ČD - Telematika a. s.	Subsidiary	43,883	703
DPOV, a.s.	Subsidiary	0	21,960
Total		**43,883**	**22,663**

*Sales and purchases of fixed assets and financial assets with related parties, except for the above noted, were deemed immaterial and were not disclosed.
**On 28 December 2009, the name of the company changed from Jídelní a lůžkové vozy, a.s. to JLV, a.s.

4.19. Consumed Purchases

(CZK '000)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Consumed material	1,303,090	1,503,786
Consumed energy	1,963,993	2,146,735
Consumption of fuels	1,376,392	1,231,079
Total consumed purchases	**4,643,475**	**4,881,600**

4.20. Services

(CZK '000)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Repairs and maintenance	1,979,388	1,778,746
Travel expenses	118,761	123,822
Telecommunications, data and postal services	364,595	368,297
Other rental	97,832	105,262
Use of railway routes and allocated capacity of the railway routes	1,444,051	1,467,762
Rent for railway coaches and wagons	420,125	446,326
Freight charges	221,144	253,282
Services of dining and sleeping carriages	127,929	126,226
Services associated with the use of buildings	251,090	219,114
Cleaning and shifting of coaches and wagons	408,482	387,095
Lease	287,674	213,826
Border area services	269,669	281,893
Advertising and promotion	134,825	170,946
Other services	985,487	1,015,197
Total	**7,111,052**	**6,957,794**

Other services predominantly include the expenses of services by traction vehicles of foreign railway transportation companies, and costs relating to commissions, environment, education, expert and legal services and similar charges.

Audit services

The total fees payable to the auditor of the financial statements prepared under Czech Accounting Standards (CAS) and International Financial Reporting Standards (IFRS):

(CZK '000)	Year ended 31 Dec 2010	Year ended 31 Dec 2010
Obligatory audit of the financial statements	5,855	8,740
Tax advisory	486	1,450
Other non-audited services	11,746	12,187
	18,087	**22,377**

4.21. Change in Reserves and Provisions Relating to Operating Activities

(CZK '000)	Year ended 31 Dec 2010	Year ended31 Dec 2009
Change in reserves	-13,820	-3,057
Change in provisions against receivables	185,457	25,337
Change in provisions against tangible fixed assets	-196,966	-336,203
Change in provisions against inventory	496	2,080
Total change in reserves and provisions relating to operating activities	**-24,833**	**-311,843**

4.22. Other Operating Income

(CZK '000)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Settlement of losses from passenger transportation from the State budget including the grant for student fares	4,075,137	3,996,611
Settlement of losses from passenger transportation from the regional budgets including the grant for student fares	8,036,076	8,364,233
Other grants	267,130	289,808
Recoveries of receivables written off and transferred	2,415	31
Contractual penalties and default interest	273,829	2,386
Compensation for deficits and damage	89,136	63,191
Acquisition of material	38,779	60,789
Commissions from sales	55,513	54,310
Other	178,994	319,349
Total other operating income	**13,017,009**	**13,150,708**

4.23. Other Operating Expenses

(CZK '000)	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Gifts	184	122
Contractual penalties and default interest	18,360	7,038
Other fines and penalties	3,150	1,337
Write-offs of receivables and transferred receivables	28,874	10,533
Deficits and damage relating to operating activities	17,172	9,414
Insurance	108,420	113,309
Employee uniforms and lump sum payments	97,415	100,055
Compensation for asset damage and impaired health	27,968	22,560
Membership allowances	5,956	5,925
Other operating charges	107,431	218,383
Total other operating expenses	**414,930**	**488,676**

4.24. Financial Income and Expenses

Financial income and expenses largely include the proceeds from the sale of the TSS, a.s. shares of CZK 600,400 thousand and the relating expenses of CZK 287,483 thousand, foreign exchange rate differences, and interest expenses on the loan after bringing tangible fixed assets into operation, interest on the loan from EUROFIMA and income from non-current financial assets.

4.25. Extraordinary Expenses and Income

Extraordinary expenses and income relate to the sale of the business part as disclosed in Note 1.6.

5. Employees, management and statutory bodies

The following table summarises the average recalculated number of the Company's employees and managers for the years ended 31 December 2010 and 2009:

(CZK '000)					2010
	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	26,887	9,349,098	2,992,916	486,755	12,828,769
Management	105	182,310	41,394	5,849	229,553
Total	**26,992**	**9,531,408**	**3,034,310**	**492,604**	**13,058,322**

(CZK '000)					2009
	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	28,461	9,729,682	3,108,238	466,702	13,304,622
Management	108	172,445	37,959	7,428	217,832
Total	**28,569**	**9,902,127**	**3,146,197**	**474,130**	**13,522,454**

In addition to the possibility of using reduced fares, the members of the Company's statutory and supervisory bodies were provided with cash bonuses of CZK 5,820 thousand and CZK 5,979 thousand in 2010 and 2009, respectively. Management of the Company is provided with a benefit-in-kind taking the form of the use of company cars for private purposes.

6. Contingent Liabilities and Other Off Balance Sheet Commitments

Off balance sheet commitments are disclosed in Note 4.2.4. Assets Held under Finance Leases.

In the year ended 31 December 2010, the Company concluded contracts for the funding of the modernisation of 19 motor locomotives of the 750 series and 58 passenger coaches of the Aee, Bee, Apee and Bpee series in the form of leaseback. In this respect, no guarantee was provided for the Company's liabilities. The contract for the funding of the modernisation of 19 motor locomotives of the 750 series in the form of leaseback was concluded with IMPULS-Leasing-AUSTRIA s.r.o.; the locomotives will be modernised by CZ LOKO, a.s. The contracts for the funding of the modernisation of 58 passenger coaches of the Aee, Bee, Apee and Bpee series in the form of leaseback were concluded with ČSOB Leasing, a.s., SG Equipment Finance Czech Republic s.r.o. and ING Lease (C.R.), s.r.o., the locomotives will be modernised by ŽOS Trnava, a.s.

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 and Plzeň – Most railway track, each in the amount of CZK 15 million concluded until the expiry of the 2010/2011 train schedule. The contract in the scope of the ordered services for the 2010/2011 train schedule on the Pardubice – Liberec track is concluded until 10 December 2011 and the contract in the scope of ordered services on the Plzeň – Most track is concluded until 10 December 2011.

As of the balance sheet date, the Company concluded contracts for the purchase of fixed assets of CZK 16,678 million, of which CZK 5,713 million relates to supplies agreed for 2011 and CZK 6,857 million relates to supplies agreed for the following years. The remaining CZK 4,108 million was settled as of 31 December 2010. A predominant portion of the liabilities relating to expenditures (CZK 16,288 million) are investments in railway vehicles.

The Company holds a 1% equity investment in EUROFIMA. The shareholders of the entity are European national railway transporters and the purpose of this entity is to acquire funds for the funding of railway vehicle purchases. According to Article 5 of the Articles of Association, the shareholders pay to EUROFIMA only 20% of the equity investment value and the remaining 80 % can be required by EUROFIMA as needed pursuant to the resolution of the Board of Directors according to Point 6, Article 21, of the Articles of Association. The nominal value of unpaid shares as of 31 December 2010 was CHF 20,800 thousand (CZK 416,894 thousand) The likelihood that the Company will be asked to pay the nominal value of the unpaid portion of the equity investment is considered to be low by the Company's management.

7. Other information

7.1. Significant Factors Impacting the Company's Operations

The Company was formed pursuant to, and its operations are governed by, general legal regulations governing joint stock companies and Transformation 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 Company provides transportation services in the public railway passenger transportation segment for a fixed (cost adjusted) price and procures transportation services in designated categories of passenger trains in the Czech Republic's rail network. The scope of these services and the level of compensation (income for the Company) are defined in agreements entered into with the State and territorial self-governing units. The level of the compensation from the orderer (the State) is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation. On 2 December 2009, the Company concluded the Contract for the Public Service Commitments for the period from 2010 to 2019 with the State.

By adopting Act No. 194/2010 Coll., on Public Services in Passenger Transportation and Changes in Other Acts, the Czech Republic has harmonised its public transport legislation with EU laws. The Company has concluded contracts for the public service commitment for the period of ten years and more which are governed by the legal regulations before the adoption of the Act referred to above. All contracts or their amendments were concluded before Regulation (EC) No. 1370/2007 entered into effect for the period of ten years or more, ie before 3 December 2009. Similarly as the contract with the State, they are governed by legal regulations that were in effect before the Regulation entered into effect.

A significant change in funding the regional transportation related to the fact that the regions and the State agreed on the additional funding of the regional railway transportation for 2009 in the amount of CZK 3.2 billion. Before Governmental Resolution No. 686/2009 dated 1 June 2009 was adopted, the ordered regional railway transportation was not additionally funded in that approximate amount. Governmental Resolution No. 1132/2009 dated 31 August 2009 secures the additional funding of the regional railway transportation through a special-purpose grant to regions, including the rules for the increase or decrease in the scope of ordered railway transportation and increase in the special-purpose grant in individual following years. In accordance with Governmental Resolution No. 1132/2009, all contracts and their amendments were concluded for 2010.

Pursuant to the resolution of the Board of Directors of the Company, changes were made to the "Live Railway Stations" project during 2009. The "Karlovy Vary horní nádraží" project was discontinued. The most significant "Praha hlavní nádraží" project is being implemented according to the time schedule with the anticipated completion in summer 2012. In 2010, the Company started the first stage of the "Masarykovo nádraží" project. In respect of other revitalised localities, contractual arrangements were not fulfilled and were either terminated, modified or discontinued.

7.2. Transactions with SŽDC

In the year ended 31 December 2010, the 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 summer 2008 and is also applicable with its amendments in 2010.

The Company operates the railway route and it pays a regulated fee to SŽDC for the use of the railway route.

Expenses and Income

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2010 and 2009 were as follows:

(CZK '000)		Year Ended 31 December 2010
	Expenses	Income
Operation of the railway route	0	5,194,373
Use of railway route and allocated capacity of the railway route	1,444,051	0
Consumed traction electricity	944,578	0
Other	139,404	0
Total	**2,528,033**	**5,194,373**

(CZK '000)		Year Ended 31 December 2009
	Expenses	Income
Operation of the railway route	0	5,320,200
Maintenance of operability	0	0
Use of railway route and allocated capacity of the railway route	1,467,762	0
Consumed traction electricity	1,534,871	0
Other	192,298	0
Total	**3,194,931**	**5,320,200**

Income from the operation of the railway route in the year ended 31 December 2010 is disclosed as sales of products and services in Note 4.17.

The costs of using railway routes and the allocated capacity of the railway route are reported as services and are disclosed in Note 4.20.

Receivables and Payables

As of 31 December 2010, the Company reported receivables from and payables to SŽDC. The aggregate net value of the balances of these items was CZK 425,674 thousand in the year ended 31 December 2010. The resulting payable is reported in 'Trade payables'.

The aggregate net value of the balances of these items represented a payable of CZK 751,827 thousand in the year ended 31 December 2009.

In addition, the Company recorded a payable in 2010 arising from unbilled supplies from SŽDC reported as an estimated payable which amounted to CZK 20,303 thousand and CZK 27,003 thousand as of 31 December 2010 and 2009, respectively.

The settlement of railway operations for 2010 and 2009 was recognised and reported as an estimated receivable of CZK 9,172 thousand and CZK 8,053 thousand, respectively.

7.3. Post Balance Sheet Events

In February 2011, the Czech Government decided to transfer the activities involving the management of operations to SŽDC with effect from 1 July 2011. The part of the 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 office furniture and fixtures. The list of the assets intended for sale has not been completed as of the balance sheet date.

No other significant events occurred between the balance sheet date and the date of the preparation of the financial statements.

Post Balance Sheet Events

Through Resolution no. 100 of 9 February 2011 the Government of the Czech Republic approved of the transfer of the remaining activities that are subject to the operation of railways (railway operation) including relevant material, technological and staffing capacities, from ČD to the SŽDC state organisation as of 1 July 2011. The Government instructed the Ministers of Transport, Finance, Defence, Industry and Trade, and Regional Development, to ensure the transfer through the representatives of their Ministries on the Steering Committee of ČD. In addition, the Minister of Transport was instructed to ensure funding for one-off expenses for the transfer without any additional requirements for funding from the state budget.

Information on Persons Responsible for the České dráhy Group Annual Report

Responsibility for the Annual Report

STATUTORY DECLARATION

With the use of all reasonable care, to the best of our knowledge the consolidated Annual Report provides a true and honest description of the financial situation, business activities, and results of operations of the company and its consolidated group for the year 2010 and on the outlook for the future development of the financial situation, business activities, and results of operations of the company and its consolidated group and that no facts have been omitted that could change themeaning of this report.

Prague, April 29, 2011

Petr Žaluda
Chairman of the Board
of Directors of České dráhy, a. s.

Report on Relations between Related Parties for the Year Ended 31 December 2010

The Board of Directors of České dráhy, a.s., with its registered office at Nábřeží L. Svobody 1222, Prague 1, corporate ID: 70994226, registered in the Register of Companies maintained by the Municipal Court in Prague, Section B, Insert 8039, presents the following

Report on Relations between Related Parties

prepared under Section 66a (9) of Act no. 513/1991 Coll., the Commercial Code, as amended, (hereinafter the "Report on Relations") for the period from 1 January 2010 to 31 December 2010.

I. The Controlling Entity and the Entity Preparing the Report on Relations

For the purposes of the Report on Relations, the controlling entity is the Czech Republic (hereinafter the "State").

The controlled entity for the purposes of the Report on Relations is České dráhy, a.s. (hereinafter the "Company"), with its registered office at Nábřeží L. Svobody 1222, Prague 1, corporate ID: 70994226, registered in the Register of Companies maintained by the Municipal Court in Prague, Section B, Insert 8039.

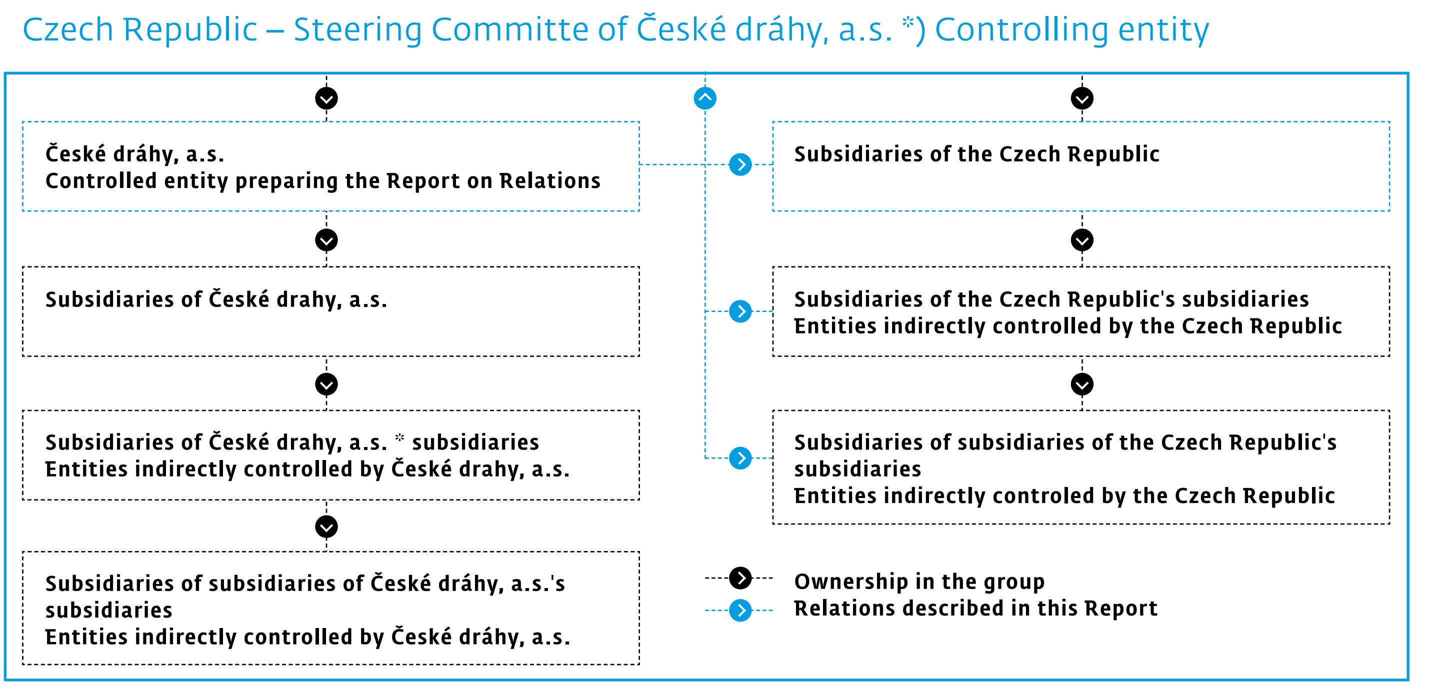
The related parties for the purposes of the Report on Relations include entities controlled, directly or indirectly, by the State. We have identified the related parties using the following criteria:

1) The entity must be a company in which the State holds an equity interest of 40-100%. The list of such entities was taken from the website of the Ministry of Finance of the Czech Republic and is attached as Appendix 1.

2) The entity must be a company controlled by an entity specified in paragraph 1). From these entities, the Report on Relations only includes entities of which the Company is aware, with which it concluded contracts for 2010 or to/from which it provided/received supplies in 2010.

The Company's Board of Directors declares that it identified relations between relevant related parties and described the relations in the Report on Relations.

II. Diagram of Relationships in the group



*) The Czech Republic is the controlling entity whitch exercises its shareholder rights through the Steering Committee of České dráhy, a.s. The Steering Committee is composed of three employees of the Ministry of Transportation and one employee from each of the following ministries: Finance, Defence, Industry and Trade, and Regional Development, who are appointed, in writing, by the government.

III. Contracts Concluded with Related Parties

Below is a list of contracts concluded by the Company with related parties, ie between the controlling entity and the controlled entity and between the controlled entity and other entities controlled by the same controlling entity.

CEZ, A.S.
Contract no. E296-DS-0194/07-C dated 27 October 2004 on heat supply
Contract no. E296-DS-0223/08-A dated 1 October 2003 on water and sewer rates
Contract no. E166-SML_D-EN-T-003TRU dated 30 January 2004 on heat supply

CEZ PRODEJ, S.R.O.
Contract no. 2010051505680 dated 28 June 2010 on electricity supply from the high-voltage system
Contract no. 2010051506857 dated 15 November 2010 on electricity supply from the very-high voltage and high-voltage system for 2011
Contract no. E0EN-008/2009 dated 30 November 2009 on electricity supply
Contract no. E294-10/CEZDI/02245076 dated 9 February 2010 on aggregate electricity supply services
Contract no. E294-S/0064/2009 dated 21 January 2009 on aggregate electricity supply services
Contract no. E295-10068/09 dated 9 July 2009 on succession of SŽE Hradec Králové
Contract no. E296-DS-0026/10-G dated 3 March 2010 on electricity consumption
Contract no.E296-DS-0105/10-G dated 29 September 2010 on electricity consumption
Contract no. E296-DS-0106/10-G dated 29 September 2010 on electricity consumption
Contract no. E297-9_NN_1_01904851 dated 6 November 2009 on connection and energy supply
Contract no. E297-9_NN_1_02060942 dated 6 November 2009 on connection and energy supply
Contract no. E297_9_NN_1_0010308206 dated 1 September 2009 on connection of power consumption equipment

ČEPRO, A.S.
Order no. E184-OBJ_124210990178 dated 28 December 2009 on the provision of a tank truck for the needs of DKV Brno
Contract no. E296-DS-0091/07-A dated 6 March 1997 on water and sewer rates

IV. Other Relations

The Company made no other legal acts or took no other measures in the interest or at the initiative of related parties.

V. Other Information

Credibility of information: Confidential information in the group comprises information and facts that are part of related parties' business secret and information that was designated as confidential by any group member. In addition, confidential information includes any business information that could, on its own or in connection with other information, cause damage to any person within the group. For this reason, the Report on Relations contains no information on the prices (or amounts) of construction, supplies or services.

The auditor's report on the Report on Relations: This Report on Relations between the related parties was reviewed by the audit firm, Deloitte Audit, s.r.o., licence no. 79. The auditor's report is included in the Annual Report of the České dráhy Group for the year ended 31 December 2010.

VI. Declaration

All the above-specified contracts and amendments were concluded and the performance and counter-performance was provided under standard business conditions. The Company suffered no detriment arising from the business relations.

VII.Conclusion

The Company's statutory body prepared the Report of Relations within the deadline stipulated by law. The Report on Relations was prepared to the best of the Company's knowledge and belief, using available data and documents and exercising all reasonable efforts. The scope of the Czech Republic's group was identified using the data provided by the shareholder. The auditor's report is included in the Annual Report of the ČD Group. The Report was submitted for review to the Supervisory Board which will provide its statement at the Company's General Meeting.

Petr Žaluda
Chairman of the Board of Directors
České dráhy, a.s.

List of group members (1 January – 31 December 2010) according to web pages of Ministry of finances

Annex 1	Corporate ID	Czech Republic's shareholding	Note
Name			
Exportní garanční a pojišťovací společnost,a.s.	45279314	40,00	
Severočeské mlékárny, a.s. Teplice	48291749	40,78	Bankruptcy
KONAX a.s. - v likvidaci	46347801	44,10	Dissolution
Ormilk, a.s. v likvidaci	60109092	46,99	Dissolution and bankruptcy
Výzkumný a zkušební letecký ústav, a.s.	00010669	47,55	
Municipální finanční společnost,a.s.	60196696	49,00	
ČMFL, a.s.	25541889	51,72	
Unitex a.s.	49969358	52,00	
ČEZ ,a.s.	45274649	69,37	
BH CAPITAL, a.s.	00546682	71,89	
Teplotechna Praha, a.s.	60192933	73,52	
SEVAC, a.s. v likvidaci	60192968	78,86	Dissolution
České aerolinie a.s.	45795908	91,75	
VIPAP VIDEM KRŠKO d.d. Slovinsko		96,50	
HOLDING KLADNO, a.s. "v likvidaci"	45144419	96,85	Dissolution
ČEPRO, a.s.	60193531	100,00	
DRIVE PRODUCTION FILM s.r.o. v likvidaci	25610830	100,00	Dissolution
Explosia a.s.	25291581	100,00	
GALILEO REAL, k.s.	26175291	100,00	
Global Investment a.s. v likvidaci	25071858	100,00	Dissolution
HEROS, spol. s r.o. - v likvidaci	60710471	100,00	Dissolution
Hotelinvest ,a.s	00251976	100,00	Bankruptcy
IMOB, a.s.	60197901	100,00	
JUNIA s.r.o. v likvidaci	45788740	100,00	Dissolution
JUNIOR centrum, a.s. v likvidaci	48154946	100,00	Dissolution
Jura Commerce, k.s. v likvidaci	00553212	100,00	Dissolution
LANCIA spol. s r.o. v likvidaci	43875904	100,00	Dissolution
Letiště Praha, a.s.	28244532	100,00	
MERO ČR, a.s.	60193468	100,00	
PAL a.s. v likvidaci	00211222	100,00	Dissolution
PPP Centrum a.s.	00013455	100,00	
PRISKO a.s.	46355901	100,00	
SANDY Strážnice, spol. s r.o.	45474656	100,00	Bankruptcy
STAVOCENTRAL, a.s. v likvidaci	47116943	100,00	Dissolution
STROJÍRNY TATRA PRAHA, a.s. v likvidaci	00674311	100,00	Dissolution
Thermal - F, a.s.	25401726	100,00	
WALL STREET UNIMARKET s.r.o., v likvidaci	49355970	100,00	Dissolution

List of used Abbreviations

ADPV	OPERATIONAL WORK DONE DATA ARCHIVE
CAPEX	CAPITAL EXPENDITURE
CAS	CZECH ACCOUNTING STANDARDS
CER	COMMUNITY OF EUROPEAN RAILWAYS
ČD	ČESKÉ DRÁHY, A.S.
ČDC	ČD CARGO, A.S.
ČD-T	ČD - TELEMATIKA A.S.
DTOP	PASSENGER TRANSPORT DATA MARKET
EBIT	EARNINGS BEFORE INTEREST AND TAXES
EBITDA	EARNINGS BEFORE INTEREST, TAXES, DEDUCTION AND APPRECIATION
EC	PASSENGER TRAIN CATEGORY OF HIGHER QUALITY (EuroCity)
EDD	ELECTRONIC TRAVEL JOURNAL APPLICATION
ERA	EUROPEAN RAILWAY AGENCY
ERTMS	EUROPEAN RAILWAY TRAFFIC MANAGEMENT SYSTEM
ETCS	EUROPEAN TRAIN CONTROL SYSTEM
EUROFIMA	EUROPEAN COMPANY FOR THE FINANCING OF RAILWAY VEHICLE STOCK
GSM-R	GLOBAL SYSTEM FOR MOBILE COMMUNICATIONS-RAILWAYS
GTN	GRAPHIC AND TECHNOLOGICAL EXTENSION APPLICATION
GVD	TRAIN TRANSPORT FLOWCHART
Hrtkm	GROSS TONNE KILOMETRES (The total of products of transport weights of trains and transport distance)
IC	PASSENGER TRAIN CATEGORY OF HIGHER QUALITY (InterCity)
IDS	INTEGRATED TRANSPORT SYSTEM
IFRS	INTERNATIONAL FINANCIAL REPORTING STANDARDS
ISOŘ	INFORMATION SYSTEM OF OPERATIONAL MANAGEMENT
JLV	JÍDELNÍ A LŮŽKOVÉ VOZY, A.S.
KADR	RAILWAY CAPACITY
Oskm	PASSENGER KILOMETRES (the total of products of the number of paying transported passengers and distance–related transport fees)
OSŽ	ODBOROVÝ SVAZ ŽELEZNIČÁŘŮ/RAILWAY WORKERS UNION
OSŽD	ORGANISATION FOR RAILWAY COOPERATION
PARIS	SALE AND RESERVATION INFORMATION SYSTEM
POP	PORTABLE POINT OF SALE
ROCE	RETURN ON CAPITAL EMPLOYED
SC	PASSENGER TRAIN CATEGORY OF HIGHEST QUALITY (SuperCity)
SENA	SYSTEM FOR PREPARATION OF TIMETABLES
SFDI	STATE FUND FOR TRANSPORT INFRASTRUCTURE
SGVD	RAILWAY TRANSPORT ACHIEVED DIAGRAM APPLICATION
SŽDC	SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY, STATE ORGANISATION
TSI	TECHNICAL SPECIFICATIONS OF INTEROPERABILITY
UIC	INTERNATIONAL UNION OF RAILWAYS
UNIPOK	VERSATILE TICKET OFFICE
Vlkm	TRAIN KILOMETRES (the total of products of the number of trains and distances travelled)
VUZ	VÝZKUMNÝ ÚSTAV ŽELEZNIČNÍ, A.S. / RAILWAY RESEARCH INSTITUTE

Identification and contact information

Name of the company	ČESKÉ DRÁHY, A.S.
Registered Office	PRAGUE 1, NÁBŘEŽÍ L. SVOBODY 1222, 110 15
Corporate ID	70994226
Tax ID	CZ70994226
Register of Companies	PRAGUE
File no	SECTION B, INSERT 8039
Telephone	972 111 111
Fax	972 232 498
E-mail	INFO@CD.CZ
	INFO@CDCARGO.CZ
Website	WWW.CESKEDRAHY.CZ
	WWW.CD.CZ
	WWW.CDCARGO.CZ
	WWW.CDVUZ.CZ
	WWW.DPOV.CZ
	WWW.CDT.CZ
	WWW.JLV.CZ