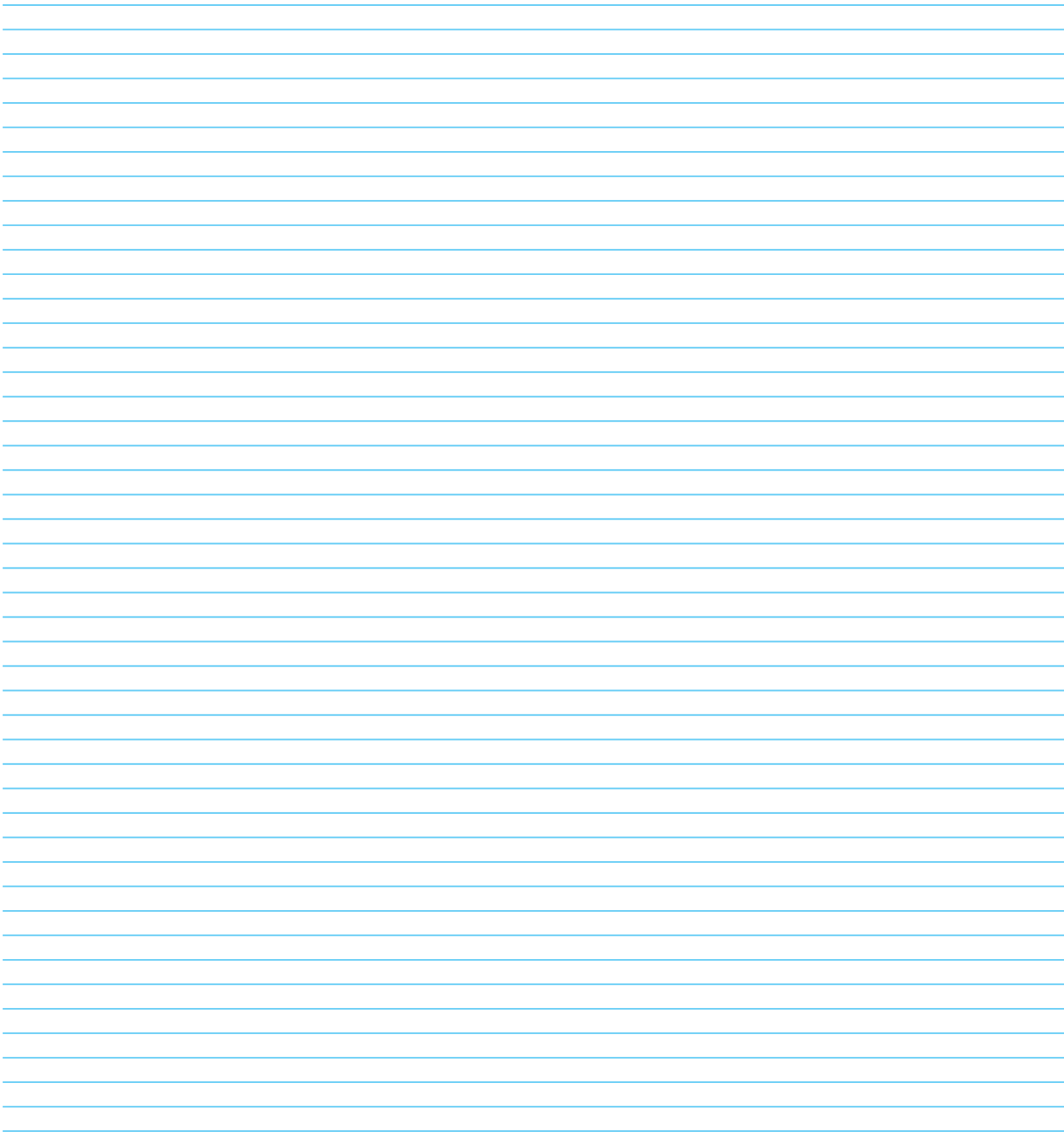


Annual report 2008
České dráhy group






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A traveller's luggage says a lot about who he is and where he's going.



České dráhy is a national railway company that provides state and regional transportation services for the needs of the state, the travelling public, and freight transport customers. ČD contributes to fulfilling the objectives of the Czech transportation policy in the area of decreasing transport's impact on the environment in the interest of permanently sustainable development.

Introduction, vision and goals

Our company

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 all over Europe;
- ▶ Provision of infrastructure operation services to Správa železniční dopravní cesty, s.o.;
- ▶ Provision of telematic services to railway transportation companies and railway infrastructure administrators; and
- ▶ Provision of comprehensive repair services for railroad vehicles and railroad infrastructure.

Our goal

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

How to reach our goal

- ▶ We are customer-oriented and try to make the use of our services simple and more pleasant.
- ▶ We invest in the modernisation of our train fleet and include new railroad vehicles 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 mid-2009 we started the Vision 2012 programme designed to reverse the historic lack of coordinated steps in the area of passenger railway transport funding and to obtain at least an additional amount of CZK 4 billion. In 2009 we anticipate a financial effect of more than CZK 500 million.

The Vision 2012 programme predominantly covers the following areas:

- ▶ Customer orientation;
- ▶ Relations with clients;
- ▶ Development of commercial activities;
- ▶ Operational efficiency improvement; and
- ▶ Modern organisation and human resources.

The České dráhy group

► **THE ČESKÉ DRÁHY GROUP**, including the parent company ČD, 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, telematics, 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, s.o. (Railway Transport Route Administration). Thanks to the volume of passenger transport, ČD ranks among the ten 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 Transportation 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 for transportation of industrial and agricultural products, raw materials, fuels, goods, containers and oversized loads. It also ensures rental of freight cars, and industrial and other transportation services. The future activities of ČDC will be focused on investment 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 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, development, service and other specialised workplaces. The most significant customer of ČD-T is ČD; other important customers include major telecommunication operators and significant companies with decentralised administration.

► **DPOV, A.S., (DPOV)** provides repair services for railway vehicles, including the latest ones which ČD operates. In addition to the ČD Group, the customers of DPOV include foreign railway companies, predominantly 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 in the interoperability railway system. VUZ is recognised as a respected certification entity which is authorised to inspect all structural subsystems.

► **TRAŤOVÁ STROJNÍ SPOLEČNOST, A.S., (TSS)** provides machine and repair capacities, and technological transport within repair, maintenance and investment activities on routes for construction companies in the Czech Republic and abroad. The company is primarily focused on the operation of special railway machines and equipment for the construction, renovation and maintenance of railways, including their repair and the production of spare parts.

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

Key performance indicators of the České dráhy group

KEY INDICATORS	2008	2007	DIFFERENCE	INDEX
ČD Group				
Total revenues (CZK mil.)	59,559	50,615	8,944	1.18
Operating profit/loss (CZK mil.)	-5,330	51	-5,381	-104.51
Profit/loss for the reporting period (CZK mil.)	2,344	-597	2,941	-3.93
Total assets (CZK mil.)	58,765	55,710	3,055	1.05
CAPEX (CZK mil.)	7,900	6,375	1,525	1.24
Amortisation and depreciation (CZK mil.)	3,037	3,034	3	1.00
Indebtedness (%)	36	34	2	1.06
Liquidity (%)	43	10	33	4.30
ROCE (%)	-11,8	0,1	-11,9	-118.0
Average recalculated headcount	48,592	56,672	-8,080	0.86
Passenger transport (ČD, a.s.)				
Number of passengers (mil.)	175	182	-7	0.96
Transportation performance (mil. passenger-kilometres)	6,759	6,855	-96	0.99
Traffic performance (mil. train-kilometres)	120,9	117,5	3,4	1.03
Average transportation distance (km)	39	38	1	1.03
Occupancy ratio (%)	23	24	-1	0.96
Freight transport (ČD Cargo, a.s.)				
Transportation volume (mil. tonnes)	86,19	91,62	-5,43	0.94
Transportation performance (mil. tariff tonne-kilometres)	15,977	17,051	-1,074	0.94
Train performance (mil. train-kilometres)	32,4	33,5	-1,1	0.97
Average transportation distance (km)	185	186	-1	0.99
Operational management of train circulation (ČD, a.s.)				
Observance of schedules (%)	90,8	88,0	2,8	1.03
Length of operated routes (km)	9,430	9,487	-57	0.99
Trains monitored in the SŽDC network (thousand)	5,072	5,014	58	1.01
DPOV, a.s.				
SOP – Average actual repair period (days)	100,42	112,72	-12,3	0.89
ODKP – Average commission repair period1 (days)	95,04	71,16	23,88	1.34
Weighted average calculated from (SOP) – (ODKP)	5,17	26,26	-21,09	0.20

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> **CEO** Ing. Petr Žaluda

01 Opening statement of the chairman of the board of directors

Ladies and Gentlemen,

In this space, the CEO of České dráhy (hereinafter the “Company” or “ČD”) traditionally evaluates the past year and typically seeks to accentuate the Company’s positive achievements. ČD succeeded in making numerous improvements in 2008; however, it is also necessary to acknowledge the less pleasant outcomes. We were fully confronted with the seriousness of the under-financing of regional transport. For some time, the Regions ordering transport relied on ČD to pay the missing amounts for them. While ČD settled this loss using proceeds from freight transportation in the past, it was forced to use the money from the sale of a part of the business to settle these losses last year. Given this situation, the modernisation of the train fleet is very slow and there is no money for the renovation of station buildings. But, as we say, every cloud has a silver lining. We finally managed to initiate a discussion which will lead to a coordinated solution of this impasse. ČD still remains a proud national transportation company with a long tradition and vast potential. The ČD trademark should not lose its value and competitive strength only because, unlike its competitors, it has to take over partial responsibility for public service funding.

The most significant change was undoubtedly the sale of a part of the business and the transfer of certain activities to Správa železniční dopravní cesty. None of our competitors can therefore claim that they do not have the same opportunity to operate on the railway market. ČD became one of the numerous transportation companies whose basic mission involves passenger transport. ČD is no longer the infrastructure operator, nor is it responsible for the construction, repair and maintenance of the railway network.

In order to contribute to the decrease in the loss, we continue in process optimisation and cost cutting efforts. We have been reviewing legacy contracts and invoices and on the basis of an HR audit we reduced the number of General Directorate employees. However, this is certainly not enough.

We continued in modernising the train fleet. In addition to the purchase of other CityElefant suburban train units and regional Regionova trains, 40 long-distance train cars were completely modernised in Trnava, other cars of line 954 with a hydraulic platform for wheelchairs were purchased and tests of new engines of line 380 were started in the test track near Velim.

Furthermore, the train schedule was updated. Thanks to new cars and train units, we increased the number of regular barrier-free trains to 1,464 connections per day. SC Pendolino trains decreased their travelling time between Prague and Ostrava to less than three hours and a new transportation concept was introduced for the route from Prague to Kladno.

As I have already mentioned, many changes were made last year. I believe that this was also due to the contribution of the new management which, like me, was appointed approximately one year ago. However, we would certainly not manage to carry out such changes without the support and help of our partners and employees. We must therefore continue in the work we started, and do our best to ensure as many positive changes at the Czech railways as possible.



Petr Žaluda

Chairman of the Board of Directors and CEO



01	02	03
04	05	

- 01** | Ing. Josef Bazala
- 02** | Ing. Michal Nebeský
- 03** | Ing. Petr Moravec
- 04** | Ing. Milan Matzenauer
- 05** | Ing. Jiří Kolář, Ph.D.

02 Statutory bodies and management of the company

Board of director

Petr Žaluda

► CHAIRMAN OF THE BOARD OF DIRECTORS (SINCE 1 FEBRUARY 2008) AND CEO (SINCE 1 FEBRUARY 2008), AGE: 42.

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: 41

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

Jiří Kolář

► MEMBER OF THE BOARD OF DIRECTORS (SINCE 9 MAY 2005) AND DEPUTY CEO FOR OPERATIONS (SINCE 1 FEBRUARY 2008), AGE: 45

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.

Petr Moravec

► MEMBER OF THE BOARD OF DIRECTORS (SINCE 15 MARCH 2008) AND DEPUTY CEO FOR PASSENGER TRANSPORT (SINCE 1 FEBRUARY 2008), AGE: 44

Petr Moravec graduated from the Czech Technical University in Prague, Faculty of Civil Engineering. He worked in Pragoprojekt, a state-owned enterprise, and in 2004 he became the CEO of Veolia Transport Česká republika a. s. where he worked until he joined ČD, 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: 58

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.

Josef Bazala

► MEMBER OF THE BOARD OF DIRECTORS (SINCE 29 MAY 2003), AGE: 52

Josef Bazala graduated from the Faculty of Operations and Economics of the Transport University in Žilina where he majored in transport operations and economics. In 1981, he joined the then Československé státní dráhy (Czechoslovak State Railways) where he performed various positions relating to railway operations and was responsible for the management of passenger transport services. Upon the establishment of České dráhy, státní organizace (the State Organisation of Czech Railways) in 1993, Mr. Bazala was appointed Senior Director of the Trade and Operations Division. In 1995, he acted in the capacity of CEO for ČD for a period of three months. From 1996 to 2003, Mr. Bazala was employed by SpediTrans Praha, s.r.o. In 2003, he returned to České dráhy where he acted in the capacity of First Deputy CEO and member of the Board of Directors. Since the establishment of ČD Cargo, a.s. on 1 December 2007 he has been its CEO and Chairman of the Board of Directors.

Changes in the Composition of the Board of Directors and Management of the Company

With effect from 8 January 2008, the Board of Directors recalled Jaromír Kadlec from the position of Deputy CEO for Operations. Miroslav Jasenčák was appointed the Deputy CEO for Operations as of 9 January 2008.

As of 31 January 2008, Rodan Šenekl resigned from the position of member of the Board of Directors. As of 29 January 2008, Josef Bazala resigned from the position of Chairman of the Board of Directors and as of 31 January 2008 he resigned from the position of CEO.

As of 31 January 2008, Jiří Kolář resigned from the position of Deputy CEO of ČD for Passenger Transport. As of 31 January 2008, the Board of Directors of ČD, a.s. recalled Miroslav Jasenčák from the position of Deputy CEO for Operations. With effect from 1 April 2008, the Board of Directors of ČD, a. s., appointed Miroslav Šebeň Deputy CEO of ČD for Marketing and Communication. With effect from 1 May 2008, the Board of Directors appointed Milan Joseph Ruttner Deputy CEO of ČD for HR Issues. As of 31 August 2008, Vladimír Filip resigned from the position of Deputy CEO of ČD for Finance and as of 11 September 2008, Vladimír Filip resigned from the position of member of the Board of Directors. As of 21 October 2008, the Board of Directors of ČD, a.s. recalled Petr David from the position of Deputy CEO for Asset Administration. As of 13 November 2008, the Board of Directors of ČD recalled Petr David from the position of member of the Board of Directors of ČD, a.s.

Supervisory board

Vojtěch Kocourek

Chairman of the Supervisory Board (member since 2 January 2003), age: 49

Ministry of Transport of the Czech Republic, Deputy Minister

Karel Březina (member since 20 April 2007)

Member of the Supervisory Board (since 20 April 2007), age: 36

Member of the Prague Council

Jan Černoorský

Member of the Supervisory Board (since 20 April 2007), age: 57

Ministry of Transport of the Czech Republic, manager of the Railway Infrastructure Department

Tomáš Chalánek

Member of the Supervisory Board (since 23 June 2004), age: 52

Owner of ProMedica, spol. s r.o., Prostějov, owner and statutory executive of MEDIHOPE s.r.o. Prague.

Zdeněk Prosek

Member of the Supervisory Board (since 20 April 2007), age: 58

Member of the Chamber of Deputies of the Parliament of the Czech Republic, member of the Economic Committee

Martin Roman

Member of the Supervisory Board (since 20 April 2007), age: 39

Chairman of the Board of Directors and CEO of ČEZ, a.s.

Jaromír Dušek

Member of the Supervisory Board (from 1 January 2003 to 31 December 2008), age: 56

Expert adviser to the Deputy for Operations

Jiří Kratochvíl

Member of the Supervisory Board (from 1 January 2003 to 31 December 2008), age: 61

Vice-Chairman of the Confederation of Railroad Unions (OSŽ)

Jan Bitter

Member of the Supervisory Board (since 5 May 2006), age: 52

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.

Steering committee

Petr Šlegl

Chairman of the Steering Committee; Deputy Minister of Transport of the Czech Republic

Appointed Chairman following resolution of the Czech Government no. 207 of 7 March 2007.

Jiří Hodač

Vice-Chairman of the Steering Committee; Deputy Minister of Transport of the Czech Republic

Appointed Vice-Chairman following resolution of the Czech Government no. 1321 of 21 November 2007

Vojtěch Kocourek

Member of the Steering Committee; Deputy Minister of Transport of the Czech Republic

Appointed following resolution of the Czech Government no. 666 of 11 June 2007

Bohumil Haase

Member of the Steering Committee; Chief of Staff of the Minister of Defence of the Czech Republic

Appointed following resolution of the Czech Government no. 1168 of 11 October 2006

Miroslav Kalous

Member of the Steering Committee; Deputy Minister for Local Development of the Czech Republic

Appointed following resolution of the Czech Government no. 1168 of 11 October 2006

Petr Polák

Member of the Steering Committee; Chief of Staff of the Minister 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

03 Report of the supervisory board of ČD, a.s.

The meetings of the Supervisory Board of České dráhy, a.s. in 2008 took place on a regular basis according to a pre-determined plan, including 11 ordinary meetings and one extraordinary meeting.

The Supervisory Board supervised proper operations of the Board of Directors and the Company's business activities on a regular basis. At each meeting, the Board of Directors submitted written information regarding its activities for the past period to the Supervisory Board. Based on this written information, the members of the Supervisory Board gained sufficient knowledge about the conclusion of the Collective Contract which is valid for České dráhy, a.s. and for its subsidiary ČD Cargo, a.s., and about the gradual conclusion of contracts with regions regarding the additional funding of the public service liability. The Supervisory Board was informed about the successfully continuing project called "Live Railway Stations" on a regular and ongoing basis. At the same time, the Board of Directors regularly informed the Supervisory Board about the achieved economic results of individual subsidiaries. The Chairman of the Board of Directors and CEO and other members of senior management kept the Supervisory Board informed about the business activities and the Company's financial performance. For each meeting, the Board of Directors submitted the "Profit or Loss of ČD, a.s. and the Management Report of the ČD Group" for the relevant period for discussion. At the meetings which took place during the first quarter of 2008, all members of the Supervisory Board were informed about the Company's financial performance for the year ended 31 December 2007, which represented an accounting profit. The freight transport which exceeded the planned amount of sales had a significant influence on the Company's profit. Nevertheless, 2008 did not have a good start. The Supervisory Board was informed that the Company reported a loss in the first quarter of 2008. The loss was due to the fact that the sales plan was not met, especially in passenger transport, and neither was the plan of the full funding of public long-distance transport by the state and the regions, whereby this lack of funds was resolved by the sale of a part of the business to SŽDC, s.o., as originally assumed.

The Supervisory Board also regularly tackled the issue of the upcoming restructuring of the passenger transportation division of České dráhy; as part of this project, the Company plans to spin-off passenger transportation services to a subsidiary. The Supervisory Board also paid appropriate attention to the concept of renovating the train fleet in the period 2009-2015. Last but not least, the Board of Directors informed the Supervisory Board on an ongoing basis regarding the efficiency of the Company's asset business. As part of this matter, the efficiency of the asset business of České dráhy, including the financial performance of the subsidiaries and joint ventures, and the information regarding the development of employment was continuously assessed. Significant attention was paid to the Contract for the Sale of a Part of the Business and the Contract for the Compensation and Settlement of Payables concluded between České dráhy, a.s. and the state organisation Správa železniční dopravní cesty, s.o., whereby the Supervisory Board gave its previous consent regarding the conclusion of these contracts.

The Supervisory Board thoroughly reviewed the consolidated financial statements of České dráhy, a.s. for the year ended 31 December 2007 and recommended them to the Steering Committee for approval. The Board agreed with the conclusions of the auditor that the financial statements give a true and fair view of the financial position of the consolidated group of České dráhy, a.s. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic. At the same time, after a thorough review, the Supervisory Board took into account the financial statements of separate accounting centres of ČD, a.s. for the year ended 31 December 2007, including the notes thereto, and stated that no unnecessary or inappropriate use of the Company's funds in separate accounting centres was identified.

The Supervisory Board also thoroughly reviewed, considered and recommended that the Steering Committee approve the "Report of the Business Activities of České dráhy, a.s. and the State of its

Assets", including the report about the recognition of funds from public budgets and the regular financial statements for the year ended 31 December 2007 with the suggestions for the allocation of the net profit to the reserve fund and partially to the social fund for the year ended 31 December 2007, and for the addition to the social fund for the year ended 31 December 2007 through a transfer from the share premium. The Supervisory Board did not identify unnecessary or inappropriate management of the Company's funds in 2007. At the same time, the Supervisory Board put its Chairman under an obligation to present the Report of the Supervisory Board of České dráhy, a.s. regarding the review of the financial statements for the year ended 31 December 2007 at the meeting of the Steering Committee.

Last year, the Supervisory Board also paid special attention to the business plan for the year ending 31 December 2009 which was submitted by the Board of Directors. The proposed plan anticipated a loss which should predominantly result from the decrease in the sales and the decrease in the income from payables of the public service financed from public budgets. The plan was principally designed in a way that it covers and secures the payment of salaries, whereby other resources should predominantly be used for investments in new railway vehicles and their maintenance as a priority. As part of the discussions regarding the business plan for the year ending 31 December 2009, the Board of Directors emphasised the necessity to resolve the major problem of permanent lack of funds in regional passenger transport. At the last meeting which was held in December 2008, the Supervisory Board stated that the operating results in the business plan for the year ending 31 December 2009 have predominantly been influenced by the lack of funds for passenger transport from public budgets, and put the Supervisory Board under an obligation to outline specific coordinated measures necessary for the completion of funding from public budgets in order to secure a long-term balanced financial performance.

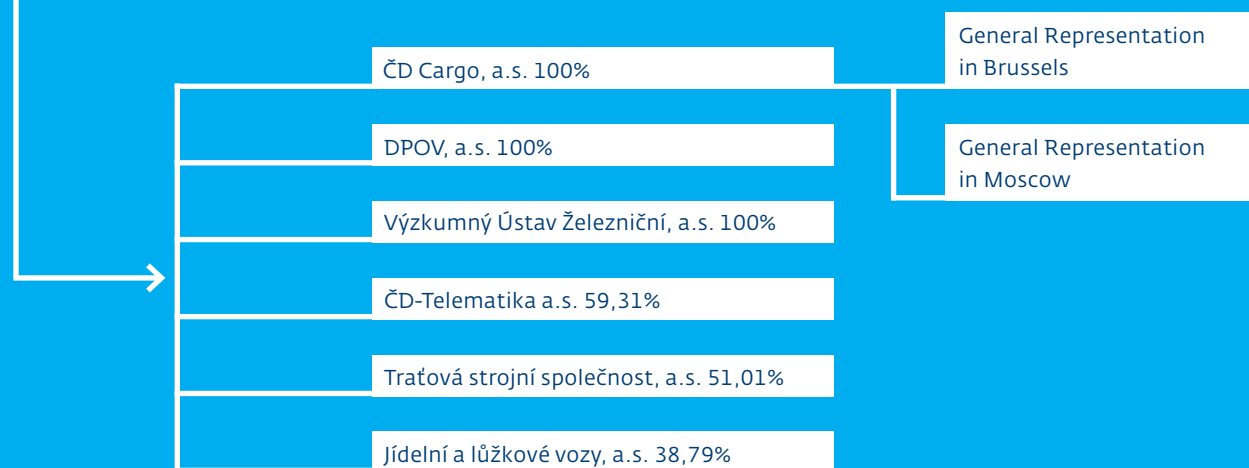
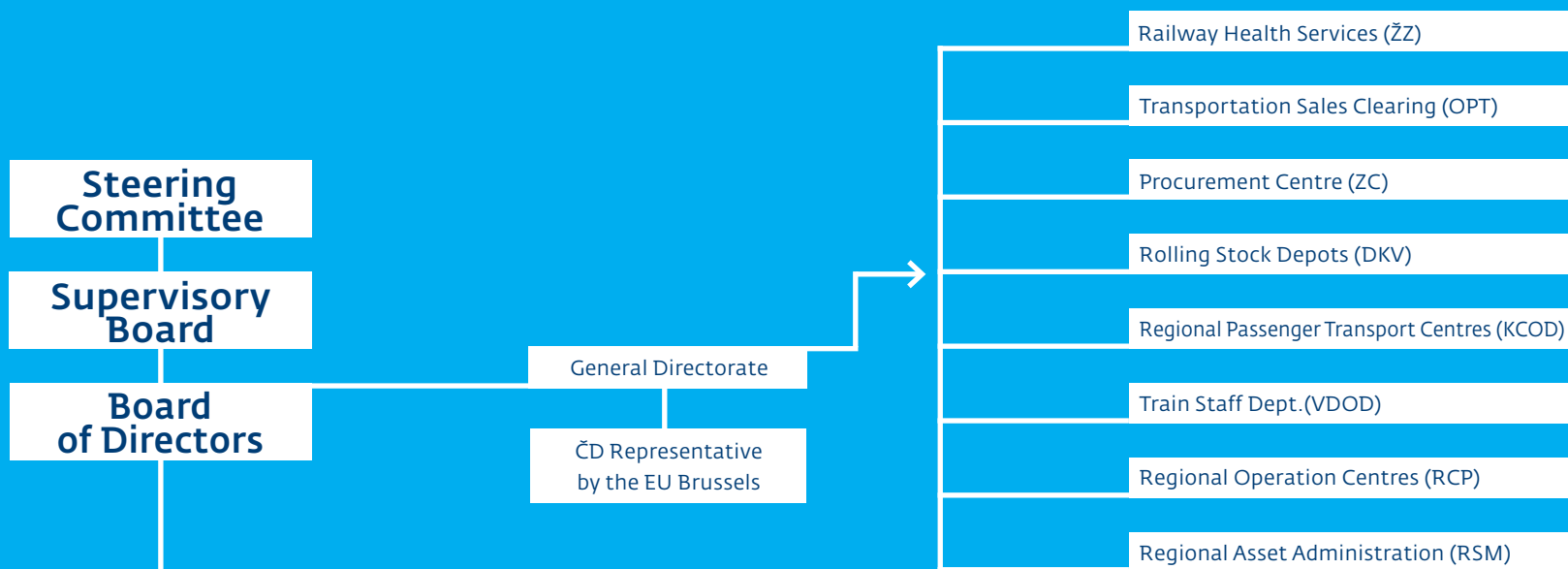
In line with the Company's Articles of Association, the Supervisory Board also granted prior consents to the Board of Directors in respect of a number of issues involving, for example, the purchase of renovated passenger train cars, the calling of public tenders for the provision of periodic repairs of railway vehicles in the years 2009-2015, the calling of an international public tender entitled the "Planned Implementation of the First Part of the Concept of Traveller Check-in with ČD, a.s." in passenger transport, the calling of a public tender for the equipment of traction vehicles of ČD, a.s. with the ETCS system, the conclusion of the Contract for the Project of Revitalisation of the Main Railway Station in Brno, the announcement of tender proceedings and the subsequent conclusion of a contract for the sale of ČD's assets in the form of a voluntary public auction, the sale of real estate, etc.

In conclusion, the Supervisory Board states that the necessary conditions were created for the proper development of its activities in which it proceeded in line with the Articles of Association of České dráhy, a.s. and the Commercial Code. The system of work of the Supervisory Board which is based on regular mutual provision of information and cooperation between the Supervisory Board and the senior management proved good. As part of its oversight activities, the Supervisory Board did not identify any breaches of legal regulations or the Company's Articles of Association in 2008, by either the senior management, the Board of Directors or authorised managers.

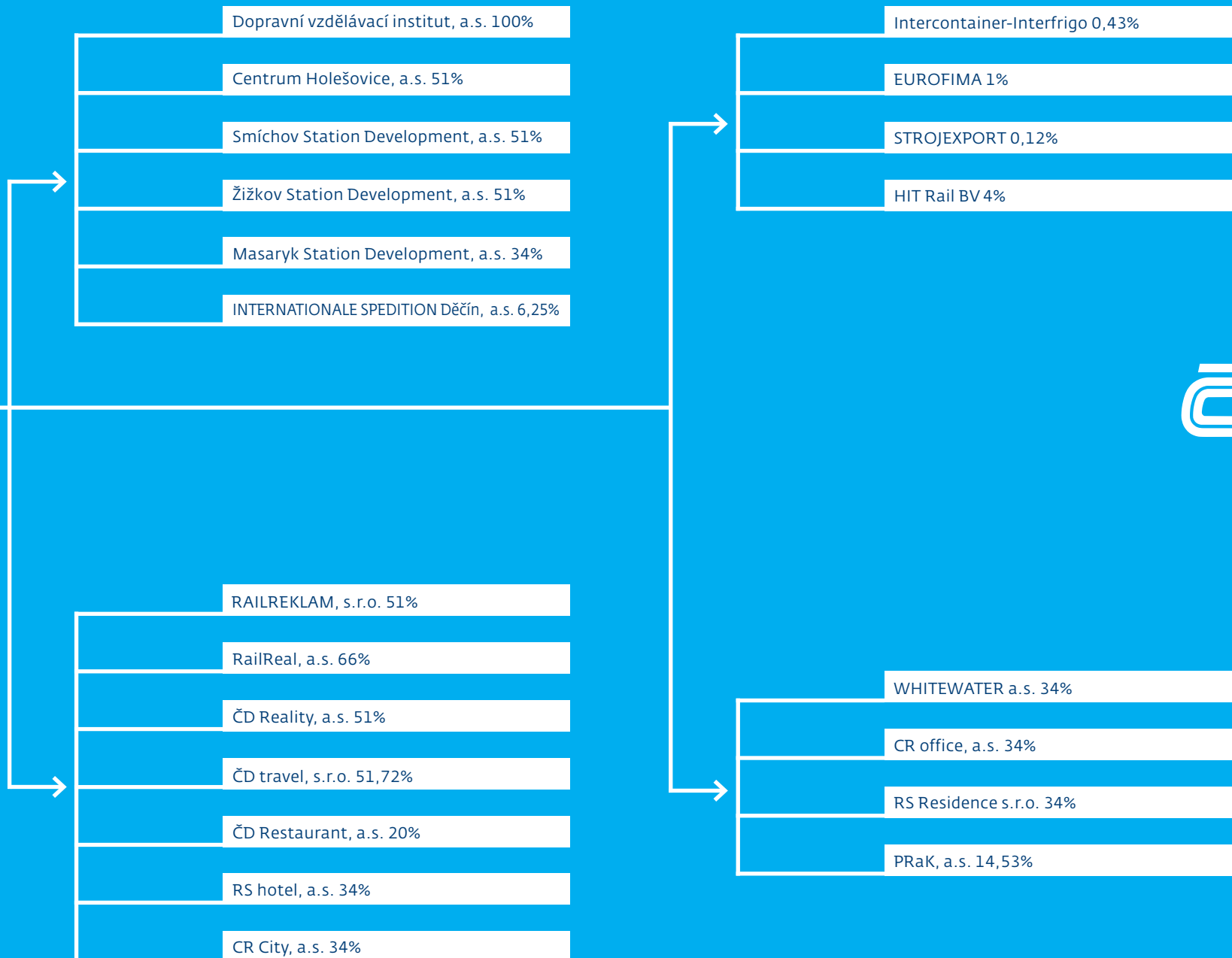


Ing. Vojtěch Kocourek, Ph.D.
Chairman of the Supervisory Board

České dráhy, a.s.



04 Organisational Structure of České dráhy Group



05 Calendar of events in 2008

JANUARY

- ▶ The Government of the Czech Republic acknowledged the intention to found a subsidiary of ČD, a.s. engaged in passenger transport. No such subsidiary was founded during 2008 on grounds of insufficient funding of passenger railway transportation.

FEBRUARY

- ▶ Petr Žaluda was appointed the new CEO and Chairman of ČD's Board of Directors.

MARCH

- ▶ The remote controlling system for the track between Bakov nad Jizerou and Česká Lípa was launched. The 45-kilometre track is operated remotely by ČD's dispatchers from Česká Lípa.

APRIL

- ▶ The Government of the Czech Republic decided to increase the subsidies to the State Fund for Transport Infrastructure (SFDI) in 2008 and 2009 totalling CZK 12 billion intended for additional funding of the sale of a part of ČD, a.s. to SŽDC, s.o.

MAY

- ▶ Grandi Stazioni Česká republika opened additional reconstructed premises in Prague's main railway station which included the premises for shipment transportation (ČD Kurýr) and the toilettes. This opening follows the first reconstruction phase which was concluded in December 2007.
- ▶ The new information system for monitoring track closings and their impact on passenger railway transport was launched.

JUNE

- ▶ The second year of a survey entitled "The Most Beautiful Railway Station" had its winner, the dispatch building of the Trutnov main station.
- ▶ The locomotive of ČD Cargo, type 218 was introduced at the Czech Raildays fair in Ostrava.

JULY

- ▶ The Government of the Czech Republic approved the transfer of assets used for the operation of national and regional railway tracks including the assets comprising the rail infrastructure from České dráhy, a.s. to Správa železniční dopravní cesty, s.o. at the market price arrived at on the basis of an expert appraisal, totalling maximally CZK 12 billion as of 1 July 2008.
- ▶ In the first half of the year, the following rolling stock was put into operation on Czech railway tracks: 15 new Regionova diesel railcars, 3 new CityElefant double-deck electric trainsets and 4 control trailers for diesel fast trains totalling CZK 1.1 billion.

AUGUST

- ▶ On 8 August 2008, a bridge collapsed onto the rail lines in the main railway corridor in Studénka. An EC train Comenius collided with the debris. Eight people were killed in this accident and dozens of people were injured.
- ▶ Newly reconstructed railway stations were opened for passengers in Domažlice and Luhačovice.

SEPTEMBER

- ▶ The so-called New Connection track in Prague was opened for ČD trains, which will enable redirection of most long-distance and suburban trains to the city centre in the course of the following years.
- ▶ A pilot project entitled Ticket Pont Centrum was launched in Říčany. It is focused on the design of boarding and commercial premises of ČD.
- ▶ The Pendolino trainset number 680.002 was the first to exceed the mileage of one million kilometres. The Pendolino trains have been in operation since December 2004.
- ▶ The general reconstruction of the dispatch building in Mimoň totalling CZK 13 million was completed.

OCTOBER

- ▶ ČD completed the reconstruction of the Praha-Vršovice railway station in the amount of CZK 50 million.
- ▶ The Taurus locomotives were put into use on express lines between Brno and Prague.

NOVEMBER

- ▶ ČD completed the reconstruction of the Praha-Dejvice railway building in the amount of CZK 54 million.
- ▶ An audit procedure was completed at the General Directory of ČD. Based on the audit, approximately 300 positions within the General Directory will be eliminated.

DECEMBER

- ▶ A presentation introducing the financial position of ČD, a.s. to the Economic Committee of the Chamber of Deputies of the Parliament of the Czech Republic was held during which attention was drawn to long-term insufficient funding in regional rail passenger transport.
- ▶ The new railway timetable for 2008/2009 introduced new time management of passenger transport between Prague and Kladno and introduced new fast trains from Prague to České Budějovice via Písek.

It's interesting that Jindřich hasn't ever met this train attendant even though he travels by this EC train to work almost every morning. "She's nice, young and very professional", says Jindřich, who is an experienced HR professional. "She even chatted with the traveller sitting across the aisle. This is exactly the kind of girl we need", Jindřich thinks to himself as he hands over his ticket to her. His company is currently looking for a new employee for one of their major clients but he hasn't found the right person yet. "Tomáš Baťa, the founder of the famous shoe company, considered man the epitome of value and productivity", said Jindřich, quoting a new book he recently read on the train. "And he was right, in almost everything", Jindřich thinks while watching the young woman check other travellers' tickets.

Jindřich / Age: 38
HR professional_Reading



"Even in the railway industry, nothing is more valuable than people."

06 Corporate governance

Shareholder structure

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

Cooperation of the board of directors and the supervisory board

► BOARD OF DIRECTORS

Operative management and corporate business governance including the proper maintenance of accounting records are performed and ensured by the Board of Directors, which is composed of six members. Members of the Board of Directors are elected and recalled by the Supervisory Board. The Board of Directors meets as needed, 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 (i.e. the Steering Committee) or the Supervisory Board, (ii) the approval of the election procedure determining the election of the Supervisory Board's members by the Company's employees as negotiated with trade unions; and (iii) the management of the Company's assets. The Board of Directors follows the general principals and instructions approved by the General Meeting (the Steering Committee), provided they are in compliance with legal regulations and ČD's Articles of Association.

► SUPERVISORY BOARD

The Supervisory Board has nine members. Two thirds of the members are elected by the General Meeting and one third is elected by the employees pursuant to the election procedure approved by the Board of Directors following discussions with the relevant trade unions. The term of office is five years. The Supervisory Board meets as needed, 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 business activity and the Company's financial performance, (ii) approving the business plan including the business strategy; and (iii) granting approval of asset management, if such a procedure is required by the Articles of Association of ČD, a.s.

► 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 as the Company's General Meeting. The Steering Committee meets at least twice a year and decides on issues entrusted to it by the law or the Articles of Association of ČD, a.s.

► COMPLIANCE

Responsibility for reviewing the compliance with legal obligations determined by legal regulations and the compliance of the Company's internal rules with Czech legislation rests with the legal department.

► TRANSPARENCY

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

► RISK MANAGEMENT

The ČD Group monitors and evaluates all significant business risks, particularly the price, credit and liquidity risks, on an ongoing and long-term basis. The principal objective of the risk management

Choosing a wedding dress for your best friend is a very responsible task. Sylva has been trying to find one for her best friend Kamila for almost two weeks. She now has a whole hour before getting off the train, so she takes a look in yet another fashion catalogue. It's Sunday and she is coming back from her hometown where she visited her parents. Sylva's boyfriend had planned to spend the weekend with his colleagues so she decided to take advantage of having a free weekend. "I'll go visit my parents", she told her boyfriend, even though she knew it was only an excuse to go see Kamila. People have said time and time again that they are like sisters, but now they live 50km away from each other and don't get to see each other very often. They met on Friday at the train station, spent time together on Saturday and discussed the wedding until Sunday over a few drinks in a small café. "I'm lucky that I travel by train, otherwise I'd probably lose my driving licence because of Kamila's wedding", Sylva said smiling while browsing through the magazine.

Sylva / Age: 25

Assistant_Fashion and Design



**"Some trips
are best taken
by train."**

system involves timely identification of risks and the subsequent active steps minimising the adverse impacts on the Group's financial performance. The České dráhy Group pays maximum attention to the risk area and continues building an integrated risk management system, which enables the quantification of key risks and the selection of appropriate tools for their management. Management tools are selected according to clearly defined strategies of individual risks and in compliance with the rules for the application of hedge accounting. Permanent monitoring of key risks also ensures that the Company's management remains well-informed about the current situation in risk management on a timely basis.

Market Risks

► PRICE RISK

The most significant price risk for the České dráhy Group is the lack of finance for the loss related to the outputs ordered as part of the public service in regional transport. In 2008, the main focus was on improving the transparency of reporting and controlling with the aim of documenting, in a clearly supportable manner, the costs involved in operating regional transportation. Based on the resulting transparent data, the Company's management, in close cooperation with the customers and the Ministry of Transport, continues the process of setting a system solution to remove this long-term unsustainable relationship and historical loss-making principally in the regional transportation segment. A notably better situation is seen in the area of the negotiated scope of long-distance transport, where the client, the Ministry of Transport of the Czech Republic, covered the full loss and the financing proceeded through the continuous drawing from the respective budget chapter.

Another risk factor for the operation of passenger transportation is the short-term character of operation contracts as part of public services both in long-distance transport and with a majority of the regions. Annual negotiations regarding the conditions of

transport provision expose the České dráhy Group to the risk of entering into agreements for disadvantageous prices including related costs with negative impacts on financial performance. In this area, the Company's management takes necessary steps to put in place a system and long-term solution, both through negotiating amendments to the existing contracts and making comments on the current legislative framework guiding the provision of public transport in the Czech Republic.

As part of freight transportation, business activities and the related pricing are principally focused on preserving, or increasing, the share on the transport market. The pricing policy in many transactions is impacted by the competition of other railroad and road transporters, which is becoming stronger particularly with the growing economic crisis. The strong position of the subsidiary ČD Cargo on the railroad freight transportation market and the long-term character of business relations are expected to aid the Company in coping with these difficult conditions.

► CURRENCY RISK

The České dráhy Group actively monitors its open currency position and endeavours to primarily use 'inherent' hedging, i.e. income in foreign currencies is primarily used to settle payables denominated in foreign currencies. A significant open currency position for the Group is reported principally in respect of EUR and the principal bearer pursuant to its business activity is ČD Cargo.

The currency risk treatment receives constant and coordinated attention from ČD Cargo, as a significant portion of income is concluded in foreign currencies, principally in EUR. To eliminate the effective impact on the Company's financial performance, a broad range of available tools are used pursuant to their characteristics on a short-term or medium-term basis.

► COMMODITY RISK

Diesel fuel and electricity consumed by České dráhy and ČD Cargo represent a material expense item for the České dráhy Group. As prices of these commodities have been highly volatile recently, a deci-

sion was made to actively hedge against the commodity risk using financial instruments. With respect to oil, ČD Cargo has proceeded to medium-term hedging of the commodity's price and therefore the elimination of the risk that the prices could grow above the concluded level. The price of electricity is addressed and fixed through a contractual arrangement with the exclusive supplier, SŽDC.

► LIQUIDITY RISK

The main objective of liquidity management within the České dráhy Group is to ensure sufficient financial resources for the settlement of payables. The key liquidity management tool is the evaluation of the short-term and medium-term development of liquidity and cash flows. Overviews are updated at least on a weekly basis and decisions with regard to the settlement of payables and the use of available loan facilities are made based on these analyses.

An integral part of the liquidity risk management involves securing sufficient loan facility lines with financing banks. The Group uses available overdraft loan facilities with local banks and allocates their limits among Group members as needed. To cover long-term investment needs principally in the area of rail vehicles renovation, a combination of own resources from operating activity, resources gained through the sale of non-core tangible assets or external long-term resources is used. The Group actively uses loans available from Eurofima, which are used for the acquisition of rail vehicles for passenger transportation. Finance leases represent an additional external financing source for the rail vehicles renovation.

► CREDIT RISK

Receivables and payables are monitored regularly, on a weekly basis, according to individual firms and default terms with special consideration for receivables past due by over 60 days. To improve liquidity and reduce receivable and payable balances, the České dráhy Group actively pursues the receivables and payables offsetting policy. External legal offices are retained to assist in recovering

distressed receivables. In exceptional cases, risky and distressed receivables are assigned to interested parties under advantageous conditions. In selected cases, supplier prepayments made to suppliers by the Group pursuant to valid contracts are covered from bank guarantees.

► OPERATIONAL RISK

For passenger and railroad transportation operators, the quality and punctuality of provided services are the key elements in competing for clients. Frequent closures and delays can lead to a loss of clients and direct financial impacts as a result of falling revenues. The clients show a tendency to include qualitative criteria into contracts for public services. In the event of a failure to fulfil those criteria, the České dráhy Group could be exposed to the risk of being required to pay financial sanctions. Therefore, České dráhy seeks improvement of the services quality and elimination of delays through investments in the purchase and modernisation of rail vehicles or improvement of processes and system support in the area of transport service management.

České dráhy, as the operator, is liable for damage caused to third parties with significant direct, both material and financial, damage arising from major accidents. The Group is insured against this risk under the obligatory damage liability insurance for damage as part of railway transport operation.

Planned ČD Risk Management Tools in 2009 and Coming Years: As a principal objective in risk management, the Company's management is planning to complete the definition and gradual implementation of a comprehensive risk management policy for the České dráhy Group in 2009. The integrated risk management system will be further developed to fine-tune the ability to timely identify and quantify risks, as well as to actively use appropriate and available financial instruments for risk management. Significant emphasis will be put on removing the system risk related to the operation of passenger transport as a public service.

07 Report of the board of directors

REPORT ON THE BUSINESS ACTIVITIES AND ASSETS OF ČESKÉ DRÁHY, A.S.

In 2008, ČD managed to meet the clients' (the Ministry of Transport and regions) requirements for train paths and the transport proceeded at set intervals between trains on all important routes during peak times, which guaranteed the passengers the opportunity to transfer between trains of different types. This type of transport makes better use of traction vehicles and passenger cars, as the regular trains can seamlessly switch between individual routes.

Efforts are increasingly being made to establish conditions in the contracts for public service commitment so that, apart from the quantitative indicators, uniquely defined service quality criteria, such as timeliness and keeping the planned train composition, the wait times and the rolling stock quality (door, window and heating functioning, cleanness, sanitary facility equipment, water filling, IT systems functioning, etc.) as well as sanctions for not complying with these criteria are included.

As part of the railway schedule, passenger (Os) and express trains (Sp) are operated based on demand from the regions in line with the public service commitments; fast trains (R) and special fast trains such as EuroNight (EN) and Express (Ex), with the exception of fast trains on the Jeseník – Hanušovice, Železná Ruda – Klatovy and Turnov – Mladá Boleslav routes, have been ordered by the State (Ministry of Transportation).

Trains of the SuperCity (SC), Eurocity (EC) and InterCity (IC) type were fully operated at ČD's business risk over the term of the train transport flow chart (GVD) validity in 2007 and 2008. From 14 December 2008, the loss arising from the operation of EC/IC trains has been paid by the Ministry of Transport to meet the State's transport needs, which created a unified system of public long-distance railway transport in the Czech Republic.

In 2008, the long-term lack of finance available for the regional transport became fully apparent. The loss could no longer be covered from the profitable freight transport activities. Nevertheless, the issue received considerable attention and the clients agreed on a compromise for 2009 to balance the financing of passenger railway transport.

For the very first time, ČD received bonuses for the above-average fulfilment of selected operating indicators as part of its long-distance public transport services commitments. Based on the contracts concluded between ČD and the Ministry of Transport resulting from tenders, ČD operated the R trains on the routes Pardubice-Liberec and Plzeň-Most. The routes of the Karlovy Vary region (apart from routes 149 and 145) are being operated by ČD until 2010 on the basis of the results of a public tender.

Most contracts in respect of the public services commitments have been concluded for multiple years, with the minimum of three years (Ústí nad Labem region) and maximum of 15 years (Hradec Králové region). A number of contracts were concluded for an indefinite period. With the exception of two regions (Central Bohemia and South Bohemia), the contracts arising from the public services commitment are amended for future periods.

Regional passenger transport has a significant role in the Czech Republic. Through its participation in the integrated public transport systems (IDS), ČD maintains its dominant position in this passenger transport segment. As in the previous years, ČD took part in a further development of IDS in 2008. In the South Moravian region (IDS-JMK), the areas of Břeclav, Hodonín, Kyjov, Hustopeče and Veselí underwent the most significant processes of integration. The Moravian-Salesian region (ODIS) saw huge development. Integration was initiated in the Pardubice region. For a better coordination in the event of irregularities and easier problem resolution, ČD has started the implementation of information systems which monitor the position of individual trains included in the IDS on-line system.

► ROLLING STOCK

At the beginning of 2008, ČD took delivery of the forty-seventh Regionova diesel railcar unit. At the end of 2008, the inventory of ČD had 75 of these diesel railcar units. Their introduction significantly increased travel comfort in regional transport. Continued supplies of storied air-conditioned electric trainsets of the 471 CityElefant

“It’s good that my colleague will wait at the train station with the material and we won’t have to go back to the company. Today it’s going to be hard work all whole day, and it would take an hour to get through town by car”, Karel thinks while looking out of the train’s window. He unwraps a carefully wrapped snack, or rather breakfast, which his wife prepared while he had his morning coffee. It has been a ritual ever since he finished vocational school and started to work. After all these years he knows that he’s good at what he does. These days there are very few experienced carpenters and the owner of the company he works for now is a decent guy. For a good twenty years he has gone to work by train. It takes him less than fifteen minutes to walk to the train station and the whole journey has almost become a ritual. He couldn’t imagine his morning without the train any more.

Karel / Age: 45
Carpenter_Tourism



“Going to work by train, every day for twenty years.”

line enables further introduction of the vehicles in suburban areas, particularly for the obsolete electric trainsets of the 451 and 452 series.

Despite the supplies of new and modernised vehicles, the fleet renewal is not sufficient and the rolling stock is aging. The average age of traction and towing vehicles is 35 and 30 years, respectively. To ensure services quality, we introduced traction vehicles of the 1216 – Taurus series owned by ÖBB for some EuroCity trains from Prague to Vienna at the end of 2008.

> Ageing Structure of Tractive Vehicles by Individual Tractions

TRACTIVE VEHICLES			NUMBER OF TRACTIVE VEHICLES											
			Records of tractive vehicles by age								Average			
			Total		0-10 years		11-20 years		21-30 years		Older		Age	
			2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Series 00	Trailers		248	264	46	62	6	6	37	0	159	196	29	29
Series 10		DC	534	228	1	0	78	78	149	60	306	90	35	30
Series 20	Electric locomotives	AC	242	103	0	0	0	0	76	60	166	43	37	33
Series 30		multisyst.	149	90	0	0	90	55	56	35	3	0	18	18
Series 40		DC	170	176	23	34	4	4	26	7	117	131	32	32
Series 50	Electric trainsets	AC	18	18	0	0	0	0	0	0	18	18	39	39
Series 60		multisyst.	28	28	28	28	0	0	0	0	0	0	3	4
Series 70	Diesel locomotives		1,123	541	27	10	167	95	515	181	414	255	28	30
Series 80	Diesel railcars		766	747	25	104	47	70	396	303	298	270	27,61	25
Series 90	Control trailers		42	73	41	73	0	0	1	0	0	0	5	4
Total traction vehicles			3,320	2,268	191	311	392	308	1,256	646	1481	1003	38	36

> Ageing Structure of Passenger Transport Rolling Stock

PASSENGER TRAIN UNITS			NUMBER OF PASSENGER TRANSPORT ROLLING STOCK											
			Inventory count by age								Average			
			Total		0-10 years		11-20 years		21-30 years		Older		Age	
			2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
	Passenger carriages		3,022	2,721	62	83	640	592	919	807	1,401	1,239	33	29
	Trailers of railcars units		987	974	43	55	0	0	656	571	288	348	34	32

Since the first time he took this train, Marek has gone by train to Ostrava many times. A few years ago, when he was opening a branch of his firm in Ostrava, he used to drive his car across the whole country. He enjoyed the freedom and power of driving his own car. He soon found out, however, that there is the fun of driving on the one hand, but time wasted behind the steering wheel on the other. The first time he took the train, it was out of necessity. He needed to quickly solve a problem at the branch office but his car was in the repair shop being inspected. He hadn't gone by train since he finished his studies and he wasn't too keen on the idea. "But it was quite good", he said to his friends at the golf course. "It went pretty well. I had a cup of coffee and answered all the e-mails I didn't have time to answer the last few days. I saved a half-day of work. I might try going by train more often" he said. And he kept his word.

Marek / Age: 40
Company owner_Golf and Cars



"He likes driving his car, but taking the train gives him the chance to get some work done."

Railway infrastructure operation

České dráhy, a.s., and SŽDC, s.o., entered into a contract for the period from 2006 to 2008 pursuant to Act No. 77/2002 Coll., as amended, to regulate the method of providing for the operation of railway infrastructure, its operability, modernisation and development in the public interest, the responsibilities of the contractual parties, including inspection, and the amount of reimbursements. The contract was entered into on 31 October 2005.

► PROVISION OF RAILWAY INFRASTRUCTURE OPERABILITY Pursuant to:

- Czech Government Decree No. 848 as of 25 July 2007 for the restructuring of České dráhy, a. s., and Railway Infrastructure Administration, state organisation;
- Czech Government Decree No. 1352 as of 4 December 2007 for the transfer of the role of the operator of national and regional routes owned by the state and the transfer of some activities which are part of the railway infrastructure operability from České dráhy, a. s., to Railway Infrastructure Administration, state organisation; and
- Act No. 179/2008 Coll., amending Act No. 77/2002 Coll., on the joint stock company České dráhy, the Railway Infrastructure Administration, state organisation, and the change of Act No. 266/1994 Coll., on rail systems, as subsequently amended;

The railway route operator function and the performance of activities related to the provision of the railway infrastructure operability and railway schedule processing, including appropriate material, technological and personal capacities, was transferred to Railway Infrastructure Administration, state organisation (SŽDC) with effect from 1 June 2008.

► OPERATIONAL MANAGEMENT OF TRAIN CIRCULATION

In the period from January to June 2008, the railway route was operated by ČD and access of individual transportation companies to the route was facilitated in compliance with the "Contract for the Method of Railway Route Operation, Functionality and Development in the Public Interest", as well as the "Contract for the Cooperation between the User and Operator of the Route in the Capacity Allocation Process". These activities and both of the above-mentioned contracts are performed and prepared in compliance with Act 266/1994 Coll., Act 77/2002 Coll. and Regulations No. 501/2005 Coll. and No. 351/2004 Coll., as amended, which provide a guarantee of standard and unbiased performance in respect of individual railway transportation companies. Simultaneously, these legal norms provide a framework for contracting the payments between SŽDC and ČD arising from their performances according to the above-mentioned contracts.

Since 1 July 2008, the operation management role has been governed by the Contract for the Railway Route Operational concluded between SŽDC and ČD, which determines ČD's role as the "route service operator" after the transfer of the function of the operator of national railway infrastructure and regional routes owned by the state from ČD to SŽDC.

The management of railway operations has been represented by the established two-tier management system with the Operational Management and the Organisation of the Railway Transport Department (O11) on the basic level, and six regional centres of operations (RCP) in Ostrava, Brno, Hradec Králové, Prague, Ústí nad Labem and Plzeň with a total of 37 operational districts, on the executive level.

In compliance with the duties related to railway route service operation and railway transport management and organisation, ČD has the following goals:

- ▶ To contribute to sustainable high fulfilment of the train transport flow chart (GVD);
- ▶ To enable standard maintenance and massive investment in railway infrastructure and to minimise the effects of track closings on GVD fulfilment;
- ▶ To ensure (from 1 January to 30 June 2008) seamless and unbiased access to the railway infrastructure to all railway transportation companies – in this period, ČD had 55 transportation partners including ČD entities; and
- ▶ To actively participate in the activities of the Association to Facilitate International Railway Transport (the international organisation Rail Net Europe (RNE)).

Asset management

The České dráhy Group owns one of the largest sets of immovable assets in the Czech Republic. Management of these assets is highly demanding.

In 2008, the Regional Department for Asset Administration was established to supervise the immovable assets of České dráhy, a.s. and closely cooperate with other Group members.

In the past, the volume of ČD's idle assets kept diminishing through sale. The sale continued in 2008.

▶ SALE OF IMMOVABLE ASSETS

In 2008, a total of 297 sale transactions in the amount of CZK 605.9 million were approved. Expenses related to the sale of real estate amounted to CZK 40.9 million (expert appraisals, geometric plans, auctions, other invoices) in 2008.

The substance of assets trading is shifting to the area of administration and development of key immovable assets. In the area of assets administration, České dráhy uses the internal lease prices system and transparently allocates a portion of expenses related to the use of respective real estate to those managing verticals that really use immovable assets.

▶ LEASE AND ADMINISTRATION OF IMMOVABLE ASSETS

In respect of external lease contracts, expenses amounted to CZK 129.054 million with income of CZK 308.475 million.

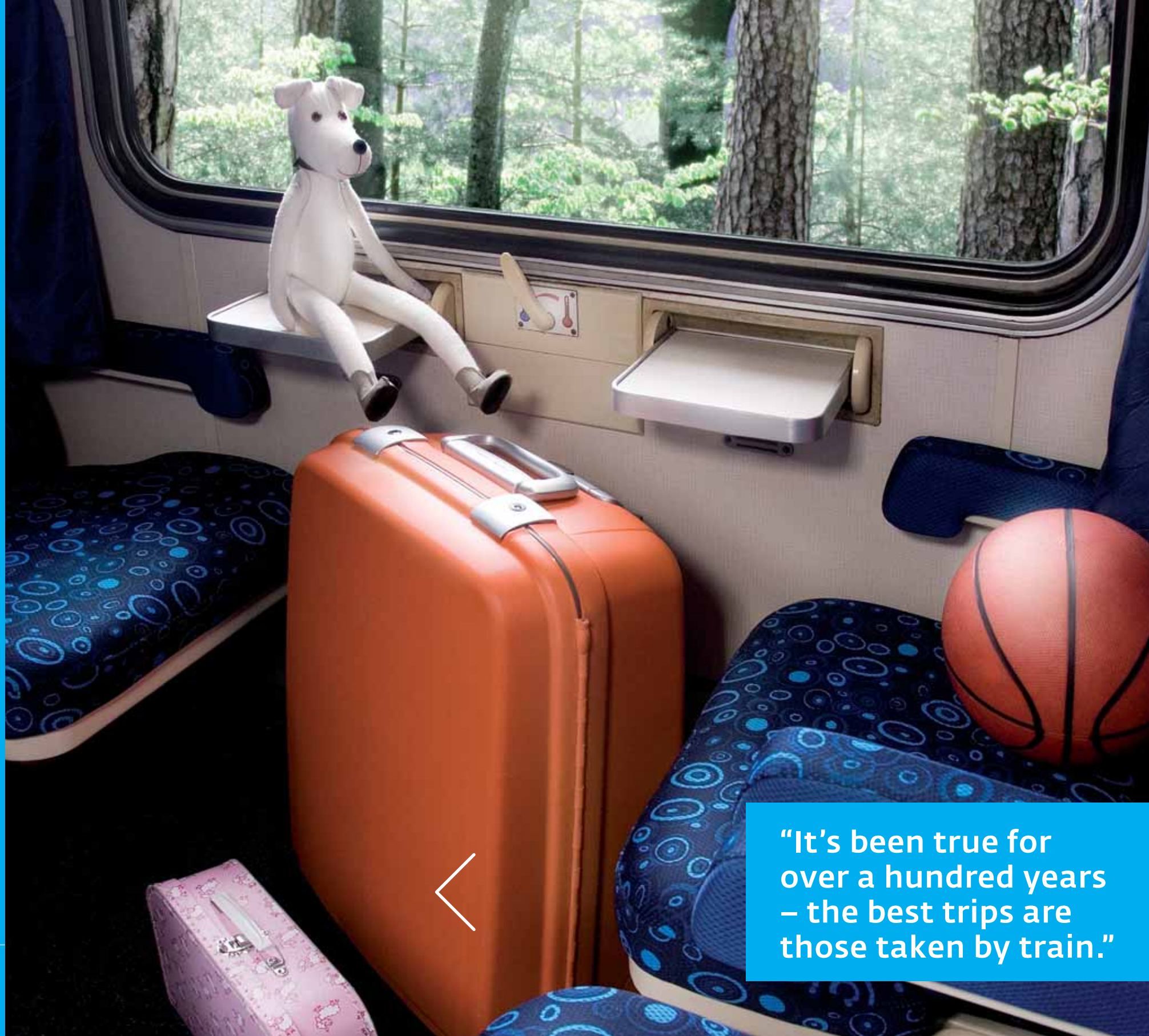
In respect of internal lease contracts, expenses amounted to CZK 154.185 million with the Regional Department for Asset Administration's (RSM) income of CZK 199.186 million in 2008. The Rolling Stock Depots (DKV) buildings adopted the internal lease system as of 1 June 2008.

Internal leases rates are determined pursuant to the valid Czech legislation, principally Act No. 151/1997 Coll., on Property Valuation, as subsequently amended, and Decree No. 540/2002 Coll. In addition to legislative regulations, the calculation model also reflects coefficients and values determined by the Czech Statistical Office and internal regulations of ČD, a.s. The internal lease rates consider the location of the building, the type of structure, the average developed floor space, the height of storeys, etc.

In respect of leases of land, expenses amounted to CZK 19.847 million with income of CZK 131.222 million.

Jiří watches the twins fighting for something and shouting at each other. In a little while, they will get off the train and meet their grandma with whom they will spend the weekend. Seeing their grandma will calm them down. It's good that they have a compartment to themselves. He wouldn't like it if they disturbed other travellers with such racket. "Look out of the window and stop misbehaving", Jitka shouts but her words don't have much effect. "Or else we will go by car next time", Jiří adds. "Nooooo," scream the twins, who then get a little quieter. They glance at their father and move to the window. "It's strange the effect trains have on children. Generation after generation...", Jiří thinks. He still remembers how he loved to go by train with his parents when he was a small boy. "There must be some magic in these machines" he says smiling, and kisses Jitka. Both of them know why. They met each other on a train fifteen years ago.

Jiří / Age: 35 and **Jitka** / Age: 33
Programmer and Accountant_Children's games



"It's been true for over a hundred years – the best trips are those taken by train."

► RENOVATION OF SIGNIFICANT RAILWAY STATIONS

FEBRUARY

On 21 February, the newly renovated Opava východ railway station was ceremonially opened. The demanding construction, which was initiated in 2004, comprised an overall repair of the roof, renovation of interiors including the restoration of a unique original decoration of the vestibule's ceiling dating back to 1892 and the renovation of the facade and the first platform under close supervision of the National Conservation Institute and the Division of the Main Architect of Opava. The joint stock company OHL ŽS was the contractor and the whole project was prepared by PROJEKT-STUDIO.

AUGUST

On 4 August, the repaired Domažlice railway station was brought into use after two years of renovations, which principally comprised a brand new entrance hall with modern sanitary facilities for clients, a platform for wheelchairs, modern digital train departure boards and a new station PA system. A new camera system was installed in the whole station. The facade, roof and internal spaces for ČD employees were repaired and additional insulation was added to the entire building. The Domažlice station renovation was a joint project of České dráhy and SŽDC.

On 28 August, České dráhy completed the overall renovation of the Luhačovice station. Within eight months, the builders exchanged the windows and doors, repaired the facade, as well as the waiting rooms for passengers. The heating and water and electricity distribution are brand new. The original decoration of the facade was restored to make the station look as it did at the beginning of the twentieth century.

SEPTEMBER

On 19 September 2008, České dráhy completed the overall reno-

vation of the entrance hall in Mimoň. The objective of the renovation was to improve passenger services and offer the passengers a more convenient environment. České dráhy also endeavoured to return the station its original look from 1900. Later extensions of the building were demolished and an open waiting area and a front garden for the station restaurant were opened.

OCTOBER

On 10 October 2008, the renovation of the Praha-Vršovice railway station entrance hall was completed. The renovation had proceeded in three phases since 2002. The Vršovice station building was built in 1872 and adjusted and extended at the end of the century, in 1899. The objective of the completed renovation was to improve the environment for both the passengers and ČD employees, as well as restore the station's historical look. The area in front of the station was modified as part of the project. The station building is a cultural monument. As to the style, it is a historical neo-classicist building with neo-Renaissance elements.

NOVEMBER

As part of the "Live Railway Stations" project, the entrance hall of the Dejvice railway station was completely renovated. ČD's subsidiary ČD Reality, a.s. renovated the station. This station, built in 1873, is one of the oldest stations in Prague. With a new facade and roof, the hall has become a worthy place for passenger services and waiting. The building was in poor technical condition, affected by repairs done in the 1960s. The Masaryk parlour and the unique air-raid shelter from the Second World War were preserved.

DECEMBER

On 17 December 2008, another phase – exchange of the glass facade of the entrance hall - was completed as part of the Havlíčkův Brod railway station renovation.

He tried to study from the textbook for a while but couldn't concentrate. He preferred watching the landscape out of the window and listening to the new hip hop music he got from a friend yesterday. "I didn't study much in the evening. I hope my math teacher doesn't call on me today, that would be a disaster", thinks David. If he were asked to go to the blackboard, he would probably not know the answer and his dad would forbid him to go out tonight. He and his friends meet at six at the train station to go to the neighbouring town. He has only been to the new club once. "If only my parents saw it there", he thinks. "Dad would get angry at just seeing all the graffiti", he smiles. He was trying to behave all week so that his parents would allow him to return on the midnight train. "I hope all goes well today. Math is the only threat. I still have a few minutes so I'll try to have a look at it", he says as he takes his eyes off the landscape outside and looks back into his textbook.

David / Age: 16

High school student_Music
and Skateboarding



"I take the train to school and when I go out in the evening."

EMPLOYMENT POLICY AND SOCIAL PROGRAMME

During 2008, ČD continued to implement the measures adopted in order to enhance its financial position and performance. Measures in the human resources area involved the continuing optimisation of the number of employees aimed at improving the age and professional structure while maintaining staff effectiveness.

ČD also developed contractual cooperation in the training of students with selected vocational schools, high schools and universities. This cooperation aims to increase the attractiveness of employment with ČD and enhance the interest of graduates in long-term employment in the railway transportation sector. ČD has concluded framework cooperation contracts with high schools and universities: these contracts involve theoretical and practical training, cooperation in research and development programmes, use of the most recent scientific and technological findings and their introduction into practice, participation in the preparation of study programmes and others. Another significant issue is the cooperation in the professional training and life-long education focused on career building and participation in assigning BA, MA and PhD theses. At the end of 2008, ČD launched the Čédés Scholarship Programme which focuses on the support and development of studies in transportation specialisation for students of the ninth grade at primary schools with guaranteed employment with ČD after graduation.

ČD observed effective legislation and regulations in the sphere of work safety and health protection at work, assisted by the trade union bodies, and provided for improvements in the working and social conditions of its employees as well as health protection in the form of preventive care and recuperative stays.

As compared to 2007, the average headcount of ČD recalculated to full time employees decreased by 15,864 employees from 53,549 to 34,685. The physical headcount was 29,293 employees

as of 31 December 2008, i.e. a year-on-year decrease of 12,367 (including the lease of a business part when the railway health care was transferred to Dopravní zdravotnictví, a.s. on 1 January 2008 and the operation of nationwide and regional railway routes was transferred from ČD to SŽDC on 1 July 2008.

To reduce adverse effects of the social impact of the dismissals resulting from the transformation and restructuring, ČD continued to use the České dráhy Complementary Social Programme approved by the Czech government in 2008. In addition to provisions of legal regulations, this programme involves as follows:

- ▶ Provision of the contribution upon the termination of employment relating to the transformation and restructuring in accordance with Government Decrees Nos. 322/2002 Coll. and 370/2007 Coll.;
- ▶ Leases of apartments and residential buildings;
- ▶ Fare and transport charges of employees;
- ▶ Other social benefits; and
- ▶ Retraining of employees.

In 2008, the average wage included in wages and salaries, excluding other payroll costs, amounted to CZK 25,368. As compared to 2007, the nominal increase was 13.5 percent.

In line with the effective legal regulations, the Company created the ČD Social Fund in 2008 and used it in favour of ČD's employees, namely for the following purposes:

- ▶ Improvement of the working environment;
- ▶ Contributions to cultural and sports events and relaxation;
- ▶ Catering contributions; and
- ▶ Social assistance, etc.

There are eight trade union organisations operating within ČD, both multi-disciplinary and representing single professional groups of employees. The corporate collective agreement regulating individual and collective relations between the employer and employees as well as the relationship between the trade unions

and employer was entered into for one year from 1 January to 31 December 2008.

In 2008, comprehensive preventive healthcare for the employees of ČD as well as employees of external employers, and the diagnostic and medical healthcare were provided by Dopravní zdravotnictví, a.s. Outpatient as well as institutional healthcare was provided in the policlinic in Prague and five policlinics (Plzeň, Nymburk, Česká Třebová, Olomouc and Ostrava) whose qualified professionals from various branches of medicine provided easily accessible, comfortable and comprehensive services on a long-term basis.

INTERNATIONAL RELATIONS

ČD actively participated in the discussions of the Community of European Railway and Infrastructure Companies (CER) that became 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 significant railway organisation, International Union of Railways (UIC), ČD strived through its representatives in individual bodies to maximally increase this organisation's work productivity while minimising the related expenses.

Regarding bilateral relationships with neighbouring railways (DB, ÖBB, PKP, ŽSR/ZSSK), the Contract for the Interconnection of Infrastructures between ČD, SŽDC and DB RegioNetz AG came into effect on 1 January 2008, Contract for the Interconnection of

Infrastructures between ČD, SŽDC and ŽSR came into effect on 14 January 2008 and the Contract for the Cooperation in Cross-border Railway Passenger Transportation between ČD and ZSSK was signed on 28 April 2008. These new contracts regarding cross-border railway transport better reflect the situation which arose after the division of railway companies into transportation companies and railway route administrators, and respect the conditions determined by EU legal regulations.

The preparations of other contracts (ČD – PKP Przewozy Regionalne, ČD – PKP InterCity, ČD – DB Regio and ČD – DB Fernverkehr) continued intensively in 2008.

MARKETING

Pursuant to the HR audit at the General Directorate, the Division of the Deputy CEO for Marketing and Communication (NMK) was completed in 2008 so that it would be possible to bring into line all communication activities of the company and improve their efficiency and make the flow of finance for marketing and PR more transparent.

The team is composed of communication employees who have worked in various sectors and senior marketing specialists who came to ČD from the commercial sector. Employees of NMK provide public relations support for both print and electronic media, they present the company and its services at trade fairs and conferences, provide services relating to all activities of ČD and ensure both internal and external communication ranging from press conferences to the company newspaper.

The task of NMK is to provide information to the public (e.g. identification of stations, information panels, leaflets with tariff offers) as required by legislation and develop the reputation of the company and its commercial products. In 2008, ČD prepared an extensive campaign for bargain railway tickets to foreign cities entitled "Summer with ČD" or information campaigns for In-karta custo-

mer cards and a new 2008/2009 timetable. Together with SŽDC, ČD prepared an information campaign and a new mascot for all railway constructions – an ant. In the autumn, ČD introduced a new long-term project entitled “Bohemian Train”.

CORPORATE SOCIAL RESPONSIBILITY

ČD is the largest transporter and one of the largest employers in the Czech Republic. This implies the corporate social responsibility of ČD in preventing injuries on the railway route, environmental protection, charity and facilitating travel for disabled passengers. In addition, ČD intensively works with young people in the special Junior Programme.

The continuing high numbers of young people injured on railway tracks and the frequency of people being run over by trains, compelled ČD to launch key safety campaigns. The first campaign entitled “Children, be careful of the tracks!” is specifically focused on parents who should pay attention to where their children spend their leisure time. The second part of the campaign entitled “Hazard Kills” is targeted at young people between 13 and 19 years of age.

ČD is the only transporter that offers transport to wheelchair-bound people throughout the Czech Republic. Every day, 18 percent of trains are wheelchair-accessible and all trains bought by ČD for regional transportation are modified for wheelchair-bound passengers, including barrier-free toilets.

ČD, together with the Union of Railway Employees, dispatches the “Train Full of Smiles” to the Zlín Film Festival and to the Brno Medical Devices Trade Fair. In spring 2008, a special NetVlak was dispatched for the first time in which disabled lecturers taught healthy people how to use state-of-the-art IT technologies. Every year, ČD dispatches a special cinema train in cooperation with the Zlín Film

Festival. ČD organises kite flying events (drakiáda) and participates in the Bambiriáda events and organises field trips for young people to interesting operating workplaces and special historical train rides. In cooperation with Siemens, ČD organises the auction of drawings by children from orphanages and supports the Plaváček endowment fund.

ENVIRONMENTAL PROTECTION

ČD ensures the systematic coordination of activities through the Environmental Protection Department in cooperation with all organisational departments and bodies of state administration.

The principal activities of ČD in environmental protection in 2008 were as follows:

- ▶ Ongoing fulfilment of legal obligations in the area of individual environmental issues (record-keeping, duty to report, etc.);
- ▶ Removal of effects of railway transport on the environment in previous years, including the reduction of environmental pollution through existing sources of contamination, including the leakage of hazardous substances into the environment or existing sources of noise pollution; and
- ▶ Focus on environmental issues in projects which are being prepared.

In individual areas of environmental protection:

- ▶ Replacing poor quality water from ČD wells continued;
- ▶ Selected sewerage systems were constructed and renovated;
- ▶ The ineffective large pollution source in the Praha Hlavní nádraží station was renovated;
- ▶ The organisational changes resulted in a significant decrease in the overall waste production (a total of 36,997 tonnes) which is a reduction to 63 percent of the 2007 levels;
- ▶ Monitoring of technological equipment potentially containing PCBs was completed;
- ▶ Clean up work was organised to remove legacy environmental burdens;

Milan has been looking forward to this moment for several weeks. He prepared his fishing gear carefully, took the day off from work and took the first morning train. He has not had a chance to go fishing for months, even though it is his favourite hobby and the best way for him to relax. He loves the peace and quiet of being near the water and has his favourite place where he has been going for years. Walking at a quick pace, it takes him less than twenty minutes to get there. He can't wait to cast his first line. Nothing but peace and quiet. And if he catches anything, his family will enjoy a delicious meal at home, since his wife is an excellent cook. Over the years, she has learned to prepare everything Milan brings home. Once, about two years ago, he had such a generous catch that he gave one fish to the train attendant of this local train. After all, it's the train that takes him to the water.

Milan / Age: 54
Serviceman_Fishing



“The best time to go fishing is with the first morning train.”

- ▶ The overall environmental audit was completed based on which risk analyses were prepared in selected localities which are a necessary part of the applications for grants from EU funds for the removal of legacy environmental burdens;
- ▶ Green areas around railway routes were maintained and weeds were removed; and
- ▶ The noise burden was successfully reduced.

The ongoing records of data regarding air protection and waste management are processed in the network version of the record-keeping software. The successfully introduced environmental management system in accordance with ISO 14001 is used in the Česká Třebová rail vehicle depot – Liberec operational unit. In addition, representatives of ČD participate in regular discussions in the UIC international association (platform for the environment, energy and sustainable development), CER and OSŽD (l. commission for strategy).

INVESTMENTS

In accordance with the “České dráhy Business Plan for 2008” and the overall strategy of ČD, the principal priority involved the renovation and modernisation of rail vehicles both for passenger (regional and long-distance) and for freight transport.

▶ INVESTMENTS IN MACHINERY

In the regional passenger transport segment in 2008, other modernised double diesel railcars of the 814/914 RegioNova series (22) and triple diesel railcars of the 814/014/814 series (7) were supplied. In addition, control trailers of the 954 series (7) and trailers of the 054 series (9) were supplied. Another significant investment included the supply of 8 suburban electric trainsets of the 471 series (City Elephant type).

On 26 June 2008, the Czech Transport Ministry approved the application of ČD for the grant in the programme entitled “Support

for the Renovation and Purchase of Rail Vehicles” in the amount of CZK 408 million. These funds were used in accordance with grant rules for the funding of regional vehicles of the listed series.

▶ CONSTRUCTION INVESTMENTS

Another important component of ČD's investment activities includes investments in construction. One of the most significant construction investments completed in 2008 is the construction of “ČD Public Container Terminal in the Lovosice station at the Lovosice Industrial Logistics Centre”. The construction was started in 2006 and was co-financed in the Infrastructure Operational Programme. The overall investment costs of the construction, including fork lift container reloaders, amounted to CZK 174 million. This investment was financed by ČD and from the state budget and EU grants. The structure has been brought into operation.

Investments in construction paid from SFDI for 2008 were completed on the basis of a contract concluded between SFDI and ČD for the provision of funds in the aggregate amount of CZK 307 million.

RESEARCH AND DEVELOPMENT

In 2008, the ČD group was active in research and development. The activities of the ČD group can be categorised into three principal categories:

- ▶ Participation in the UIC Research Coordination Group - the UIC work group active across UIC forums seeks to define the most significant issues of individual railways for other calls announced for projects in the Framework Programme for Science and Technological Development.
- ▶ Scientific and research projects – with respect to science and research, this group includes InteGRail, 2TRAIN, Innotrack, Random and IDMAIN projects. These projects were dealt with under the Sixth Framework Programme of the European Commission for Science and Technological Development and under the Grant Programme of the Ministry of Industry and Trade.

"We'll be there in twenty minutes and Libor will be waiting", thinks Lucie, who has been so looking forward to her visit that she hasn't even glanced at the guidebook that she took to read. "Since we haven't seen each other for three days I'll give him a big kiss", she says to herself and smiles. They have an important task today: they need to finish making plans for their holiday. One thing Lucie is sure of is that they'll go by train. It's comfortable and they'll surely meet new people. Plus, they don't want to go through the same thing as last year. Libor borrowed his parents' car to go to the South of France but when they took a break in Montpellier, their car was broken into. The thieves not only stole their bags and camera, which wouldn't have been so bad, but they broke a window, tore out the radio and damaged the car's wiring too. Because Libor and Lucie spent almost all their money repairing the car so that they could leave, Lucie doesn't want to hear anymore about going on holiday by car.

Lucie / Age: 21
Student_Travelling



**"Travelling by train
and getting to
know new people
and places."**

► Interoperability – in 2008, ČD continued the implementation of the European Train Control System (ERTMS). Traction vehicles of ČD were equipped with GSM-R radio receivers. In addition, ČD continued the pilot project for the equipment of the Poříčany-Kolín track with the ETCS train safety system. In November 2008, the European Commission signed the Decision on the Provision of a Grant in the amount of EUR 1 million for the equipment of eleven 380-series locomotives with the ETCS system. The employees of the ČD group participated in the dealing with the interoperability implementation in work groups for individual TSI. The ČD group got ready for the application of measures relating to the adoption of the “Greening Transport Package” dated August 2008.

INFORMATION TECHNOLOGY

In 2008, the development of the eShop ČD continued. Budget-priced international tickets to selected European cities were added to the offer at [HYPERLINK "http://www.eshop.cd.cz" www.eshop.cd.cz](http://www.eshop.cd.cz). It is possible to select a particular seat in the graphical layout of wagons from the wagons and trains included in the ČD reservation system. To facilitate the purchase of tickets by foreigners, ČD introduced the fully operating English version of the eShop ČD web site.

The solutions for the In-karta project were further developed. The number of produced cards exceeded 600 thousand. While most transporters use only the basic type of cards - MIFARE Standard, ČD has used the upgraded type of cards - MIFARE DESFire from the beginning. As such, ČD is the largest issuer of chip cards in the Czech Republic and concurrently the largest issuer of cards using this technology in Central and Eastern Europe. Services relating to the cards are extended on a gradual basis – the portfolio of documents, services and goods that can be paid for using the Electronic Purse was extended. Since May 2008, the Electronic Purse can be used in trains to pay conductors who carry the portable personal

cash desk (POP). Since August, it has been possible to buy In-karta without customer applications that serve only as the Electronic Purse. In December, ČD launched a bonus programme that provides discounts to customers who purchase tickets in vending machines or use payment cards. At the [HYPERLINK "https://moje.inkarta.cz" https://moje.inkarta.cz](https://moje.inkarta.cz) website, ČD launched the user section in which each holder of In-karta can find information about his/her In-karta, list of transactions with the Electronic Purse or complete or correct his/her contact details.

ČD decided to significantly support the purchase of tickets by passenger in vending machines using UNIPAJ fixed vending machines (which are able to accept both payment cards and cash) and mobile vending machines currently tested at the Suchdol nad Odrou – Studénka track which communicate directly with the control unit of engine cars of 814 series (Regionova). In addition, the selection of tickets sold in UNIPAJ vending machines was extended. Since 2008, it has been possible to buy return tickets and tickets for travel exceeding 120 km and since December, it has been possible to buy tickets up to 60 days in advance.

In 2008, IS SAP was upgraded from the 4.6.C version to one of the most recent versions ERP 6.0.

At the end of the year, the Central Records of Contracts application in SAP was reactivated and its functions were extended. At present, the application enables archiving the originals of contracts in the electronic form in the central storage which was activated in SAP for this purpose.

Within the InteGRail (Intelligent Integration of Railway Systems) project that was covered by the 6RP EU programme, ČD worked on one of its three parts – transfer of information between the riding train and the ground server. In September 2008, the transfer of diagnostic information from the 471 series units to the ground server was presented at the Praha-Kolín track.

08 Subsidiaries

ČD is the controlling entity exercising effective influence over management of subsidiaries without having controlling agreements in place, through shareholder rights. The influence over the management of the controlled entity is based on the majority ownership.

Three companies in the ČD portfolio use the German governance model (Masaryk station development, a.s., Žižkov station development, a.s. and Výzkumný ústav železniční, a.s.). Other companies use the Anglo-Saxon governance model.

The strategic interest of ČD is to remove the companies that do not support the principal activities of ČD and companies that do not bring any benefits to the group from the current group structure. In addition, the company seeks to optimise and stabilise controlling relations in the cleared structure. ČD initiated steps leading to this aim during 2008.

On 1 September 2009, ČD group established the Section of Administration of Equity Investments the principal task of which is the management of subsidiaries and equity investments, coordination of relations among companies in the ČD group and coordination leading to the creation of conditions for the establishment of the group.

Sales of shares of subsidiaries in 2008

In 2008, the shares of Ostravská dopravní společnost, a.s. were sold. Pursuant to the approval by the Supervisory Board of ČD and the Steering Committee of ČD, the shares were sold for the price determined by an expert of its subsidiary ČD Cargo, a.s.

Changes in equity interests and amounts of the share capital of subsidiaries and equity investments in 2008

The General Meeting of Strojexport, a.s., in which ČD holds the minority investment interest of 0.12 percent, decided to decrease the share capital. The reason for the decrease in the share capital was the settlement of the loss reported on the accumulated loss account.

Consolidated ČD group

The consolidated ČD group is defined by the resolution of the CEO of ČD; it is composed of České dráhy, a.s. (parent company), ČD Cargo, a.s. (subsidiary), DPOV, a.s. (subsidiary), ČD - Telematika a.s. (subsidiary), Traťová strojní společnost, a.s. (subsidiary), Výzkumný Ústav Železniční, a.s. (subsidiary) and Jídelní a lůžkové vozy, a.s. (associated company).

ČD Cargo, a. s.

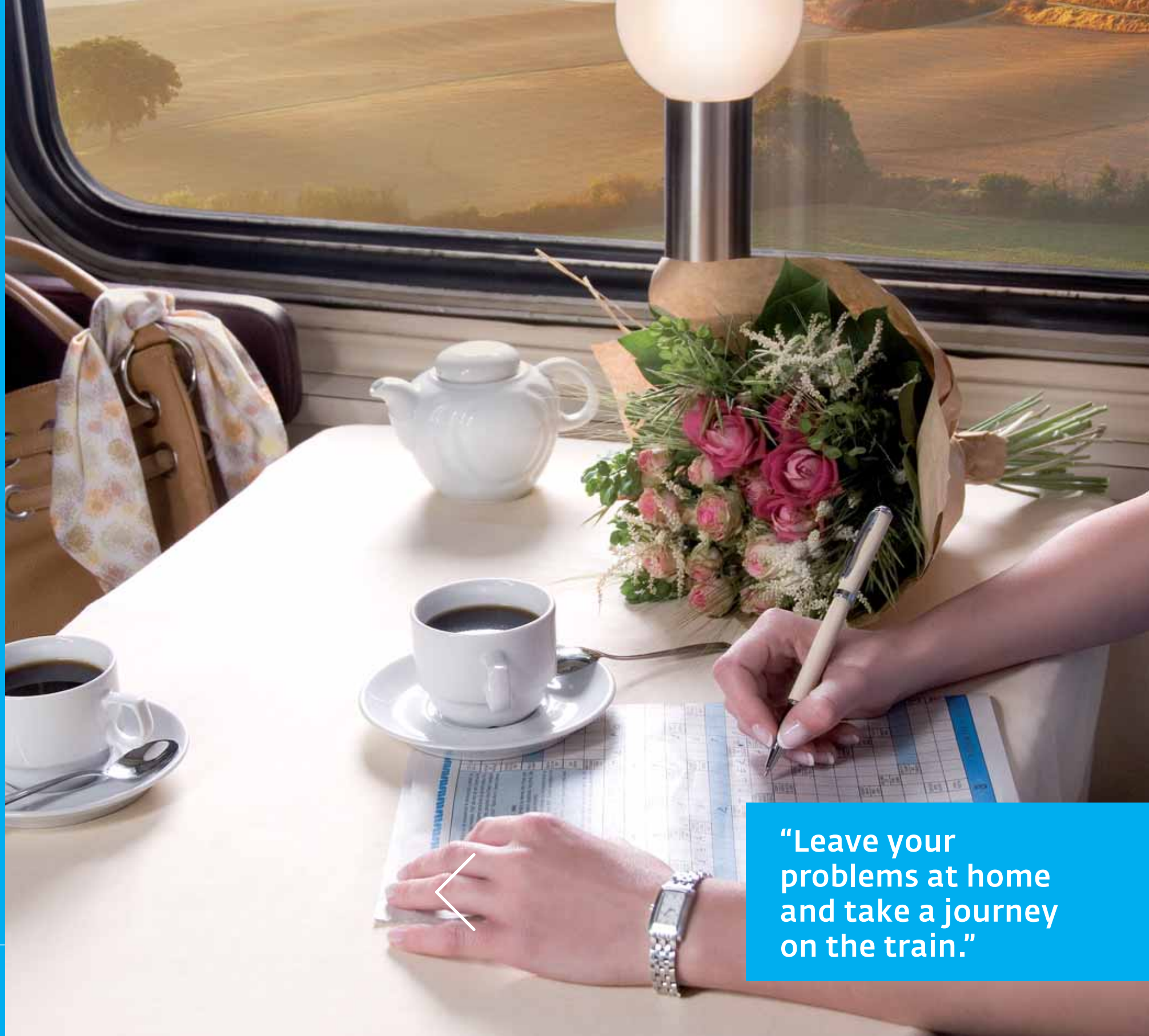
► ACTIVITIES

ČD Cargo, a. s. was formed on 1 December 2007 by making a contribution of part of the business of ČD, a.s. The subsidiary ČD Cargo finished the first year of its existence and the achieved results show that the resolution to separate the freight transportation into a standalone company was the correct step to take.

The strategic aim of ČD Cargo is to maintain the leading position on the freight transportation market in the Czech Republic and Central Europe. In addition, ČD Cargo aims to become an efficient customer focused company. The result of activities is the maximisation of the profit through an active provision for the existing and new contracts in freight transportation and optimisation of costs incurred in transport operations and operations of the entire company.

The train is rolling. Eva has only a vague idea where they are, but she doesn't mind because she's sure that Luboš knows exactly where they are. Knowing him, he'll even know what time to get off the train. And so Eva lets the rhythm of the train rock her while she enjoys the view of the gardens along the railway. She sees beautiful roses that are much nicer than the ones she has this year. "We'll be there in 20 minutes", Luboš says and Eva smiles. It was high time he announced it. She knew he would say it aloud any minute. The fact that everything works as usual makes her calm. Old friends from high school will be waiting at the train station. A long weekend at their weekend house used to be a tradition. They should renew it. In the evening, she and her friend Věra will make mulled wine, sit on the porch and talk about children. The men will drink slivovitz and hang out around the smokehouse. The train, the spicy aroma of wine and the view from the porch down to the valley – Eva knows they have needed a weekend like this for a long time.

Eva / Age: 45 and **Lubomír** / Age: 44
Clerk_Cooking
Policeman_Handyman



“Leave your problems at home and take a journey on the train.”

The volume of freight transport in 2008 ranks ČD Cargo (as a standalone subsidiary for the first time in 2008) fifth among rail freight operators in the European Union.

The promising growth trend in transport was negatively impacted by the worldwide economic crisis that hit the Czech Republic in the latter half of 2008. The crisis impacted namely the transport of cars, metallurgical products and timber. Until August 2008, transport of automotive products was approximately the same, however, the last four months of the year saw an immense decline. Production was reduced or even discontinued for a certain period by a number of automobile factories.

These reductions predominantly impacted freight transportation; however, the loading by in-country producers, mostly in production plants of Škoda Auto was reduced. The company experienced an even more significant decline in the transport of metallurgical products and commodities relating to metallurgy: iron ore, metal scrap, dolomite limestone, and coke. The decreased interest in construction overseas, specifically in the USA, resulted in a decrease in interest in cut timber from the Czech Republic and naturally a decrease in the interest of sawmills in supplies of round timber. Moreover, a number of wood-processing companies, specifically paper-mills maintained supplies from the 2007 calamity year.

ČD Cargo successfully developed the transport of wood chips provided in cooperation with ČD Logistics, a. s. The development in the transport of brown coal was much more positive. In 2008, ČD Cargo transported 100 thousand tonnes more than in 2007 although the Chvaletice power station organised an overhaul of the coal tipper and the transportation was impacted by other investments. ČD Cargo managed to provide for certain new business transactions. The company was successful in combined transport when it managed to increase the number of combined transport trains in the particular part of the year and given the pre-Christmas boom, the impact of the crisis was not so apparent.

► ROLLING STOCK

ČD Cargo maintains 484 electric locomotives and 479 diesel locomotives to provide for operations of freight trains. The goods of customers can be transported in 31,656 wagons of a variety of series. The company focuses its investments on rolling stock. In 2008, the company acquired, among others, 350 Tams series vehicles, 360 vehicles of the Falls 54th construction group, 175 Roos vehicles and 516 Eas vehicles of the 54th construction group. In addition, the supplies of 150 vehicles of the Sggmrss series and 200 vehicles of Sggrrs series were completed.

► EMPLOYMENT POLICY AND SOCIAL PROGRAMME

Since its formation, ČD Cargo has continued to implement measures leading to the increase in work productivity. As part of these human resources measures, the company continued to optimise the number of employees with the aim of improving the age and professional structure while maintaining an efficient employment rate.

In 2008, the Code of Ethics of ČD Cargo was prepared. It assists in ensuring the compliance of day-to-day activities of ČD Cargo and behaviour of all its employees with determined principles of the company.

► INVESTMENTS

The principal priorities of ČD Cargo, in accordance with the business plan, include the renovation and modernisation of the rolling stock and other investments in machinery, construction and other activities necessary for the operations of the company. ČD Cargo uses its own and other than company funds to finance its investments. Other than company funding includes leases and supplier loans.

The costs of investments amounted to CZK 2.5 billion in 2008. In December 2007, the costs of investments amounted to CZK 481 million. The major part of investments involved the renovation and modernisation of wagons and traction vehicles in the aggregate amount of CZK 2.2 billion.

In 2008, the total revenues amounted to CZK 19.2 billion. The profit of the company before tax amounted to CZK 407 million.

"It was a good year, the harvest was good", Oldřich says to himself while putting apples into his basket. He sets aside the best ones for his grandchildren. He is going to his son's for a visit since he hasn't seen the family for two weeks and is missing the little rascals. The train leaves in an hour and it's only a few minutes' walk to the train station. There is so much work in the garden right now that he hardly gets to town. After all, at the weekend house he has almost everything he needs. When the first frost comes, he will move back to his flat. Since he lost his wife, this has been his favourite place to stay, apart from spending time with his grandchildren. A long time ago, he and his wife bought a piece of land of their own – a garden with a few trees. They could come here by train whenever they had some free time. "Well, let's head out. The trains have been on time recently so it's better to go to the platform a little earlier", he says to himself while locking the gate.

Oldřich / Age: 62
Pensioner_Gardening



"I'll buy a little garden outside of town, preferably close to a train station."

DPOV, a.s.

► ACTIVITIES

DPOV, a.s. is engaged in the maintenance, repair and modernisation of rail vehicles. Its production programme predominantly includes repairs of higher grades of most series of locomotives and engines operating on Czech railway routes. The principal goal of 2008 in this respect was to deal with starting repairs of the most recent electrical units of the 471 and 680 series and gradual completion of putting locomotives of the 181 and 182 series intended for lease into operation. Furthermore, the production programme includes repairs of individual spare parts and technological units such as speed gears, combustion engines, wheel sets, etc. In addition, DPOV, a.s. provides surface treatment of rail vehicle bodies for both repair and advertising purposes. Last, but not least, DPOV, a.s. provides operational maintenance and unplanned repairs of locomotives. The priority in investments is equipping the company with new strategic technologies in the repairs of wheel sets and an increase in the capacities of individual workplaces. In 2008, total revenues amounted to CZK 1.4 billion. The profit of the company before tax amounted to CZK 63.8 million.

► EMPLOYMENT POLICY AND SOCIAL PROGRAMME

In September 2008, the company started contractual cooperation with the Technical and Business High School in Olomouc aimed at the training of graduates – potential future employees, focused on the training of professionals. Employees participated in trainings focused on the improvement of their qualifications.

► INVESTMENTS

With respect to technical development, the company focused on the acquisition and renovation of technological equipment. At the same time, the company made significant investments in the improvement of work conditions of employees and environmental protection. In 2008, the investments from own funds amounted to CZK 22,807 thousand. Principal investments exceeding CZK

500 thousand included the purchase and installation of the wheel press (stage 1), compression press for undercarriages, dynamic wheel balancer, installation of the 10t crane for undercarriages of the 680 series, completion of the jet equipment or strengthening of surfaces of the rail wagon scales. In the following years, the company plans to complete and certify the workplace for repairs of wheel sets and increase the capacity of repairs of “newly repaired series” (e.g. 471 or 814).

ČD – Telematika, a.s.

► ACTIVITIES

ČD - Telematika a.s. is a strong and stable company operating on the local market. It provides its customers with comprehensive communication, telematic and ICT solutions, and services. The Company provides an optimum development of information and telecommunication technologies through one of the largest ICT infrastructures in the Czech Republic, central data storage, server farms, and development, service and other specialised centres. The Company operates more than 3,500 km of own optical cables across the whole Czech Republic. The Company's aim is to actively participate in the development of ICT and telecommunication solutions. In 2008, the total revenues of ČD-Telematika a.s. amounted to CZK 1.75 billion and its profit before tax was CZK 56.1 million.

► EMPLOYMENT POLICY AND SOCIAL PROGRAMME

The company is well aware of the need for qualified professionals. For this reason, further personal development of employees was an important part of the company care for employees in 2008. Principal educational activities included professional seminars and courses focusing on the increase in qualifications and professional knowledge of employees and periodic trainings required by legislation. Individual employees are offered language training, predominantly English courses.

The company is engaged in the "INTO THE JOB WORLD" project which involves cooperation with vocational high schools in which it has the possibility of directly participating in creation of curriculum and continues cooperation with universities.

Traťová strojná společnost, a.s.

► ACTIVITIES

Traťová strojná společnost, a.s. (TSS) has operated in maintenance and repairs of superstructure for more than 55 years. As a joint stock company, Traťová strojná společnost (TSS) has operated on the market for four years. The main activities of TSS include work with track machines during maintenance, modernisation and renovation of superstructures, and the operation of irregular railway freight transport of building materials.

It also significantly participates in the repair and renovation of special track machines. TSS provides its services to SŽDC and construction companies in the Czech Republic and abroad (Slovakia, Hungary and Poland). TSS has a privileged position on the Czech market in the area of cleaning the railway bedding with mechanical cleaners and separated laying of rail grid with a SUM machine. The competitive advantages of TSS include long-term experience in the sector, professionally trained teams working with machines and knowledge and quality of repair services.

At the beginning of the second quarter of 2008, the company received, after an extended period of time, new mechanisation focused on the completion of the technology for homogenisation of the gravel bed – DGS 62 N CZ dynamic stabiliser and for technology for the adjustment of the gravel bed – SSP 2005 SW gravel plough and concluded the contract for the supply of the 09 3X high performance automatic tamper and another SSP 2005 SW gravel plough. In 2008, the integrated quality system complying with the ISO 9001 standard and ISO 14001 standard (environmental issues) and OHSAS 18001 standard (work safety) was certified.

In 2008, the company saw the growth in performance and resulting sales. The total revenues of TSS in 2008 amounted to CZK 903 million and the profit before tax amounted to CZK 73 million.

► EMPLOYMENT POLICY AND SOCIAL PROGRAMME

In 2007, TSS started to use its Ethical Code which assists in ensuring the compliance of day-to-day activities and the behaviour of employees with determined principles of a modern company as part of determined rules that are based on values and principles of the company: "Reason, decency, reliability".

The company started to work together with high schools and vocational schools and focuses on the education of future employees of Traťová strojná společnost, a. s.

Výzkumný Ústav Železniční, a. s.

► ACTIVITIES

The principal activities of Výzkumný Ústav Železniční, a.s. (VUZ) include testing railway cars in the VUZ Testing Centre in Velim where technical parameters and properties of railway cars are tested on special tracks of a long and short railway circuit. VUZ also functions as a provider of numerous accredited tests. These include tests of the cars' driving, dynamic and traction features, tests of security devices, electromagnetic compatibility tests, noise tests, etc. These services are provided to Czech as well as foreign customers and VUZ uses not only the Velim Testing Centre but also other workplaces of the accredited testing laboratory, mainly the dynamic test bench department which was established to perform fatigue and dynamic tests of vehicles and their components including simulation of operating and service conditions of vehicles.

Major foreign customers of VUZ include Alstom Transport France and Alstom LHB Germany, AnsaldoBreda Italy, Bombardier France and Voith Turbo Lokomotivtechnik.

In addition, VUZ is engaged in assessing elements of 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. The company generated 2008 profit before tax in the amount of CZK 51.3 million and its total revenues amounted to CZK 214.2 million.

► EMPLOYMENT POLICY AND SOCIAL PROGRAMME

The management of the company intends to optimise the professional composition of employees to fully provide for all areas of principal activities of the company. The number of professionals specialised in assessing the security of products and systems of railway security technology, number of experts in assessing the compatibility of products and verification of structural sub-systems of rail vehicles, infrastructures, energy, security and management with the focus on the compliance with requirements of the interoperability of the European railway system was increased.

The company puts emphasis on the increase in the number of university educated employees in technical professions referred to above. VUZ ensures the hiring of successors of current top professionals through the constantly developing cooperation with leading technical universities in the Czech Republic.

Jídelní a lůžkové vozy, a.s.

► ACTIVITIES

Jídelní a lůžkové vozy, a.s. (JLV) is a major European company providing accommodation and catering services in passenger railway transport. In night transport, JLV cooperate with the Swiss company CityNightLine based in Zurich and the German company DB Autozug based in Dortmund which merged under the name of City Night Line at the end of 2007.

JLV continued its activities in one of the leading international organisation in the industry sector - IRCG (International Rail Catering Group). In 2008, JLV focused on the fulfilment of its basic business plan – the provision of services in special construction cars of ČD or other railway transportation companies.

In addition to railway services, JLV continued its activities in the development of fixed catering. The company paid significant attention to the Brno operating unit where Depo café & bar was opened in March following renovation. Another significant investment was the renovation of the Secese restaurant which underwent numerous changes. This renovation laid a solid foundation for the use of the Secese hall as a conference area for corporate and cultural events. Other development activities in catering include the opening of the Rosmarin café. This is the second café under the MOMENTO – Fast restaurant concept. It is located in the Rosmarin business centre at Prague 7. In addition, the company was successful in catering services where sales increased year-on-year by 15 percent.

The company generated 2008 profit before tax in the amount of CZK 16.1 million and its total revenues amounted to CZK 357.0 million.

► EMPLOYMENT POLICY AND SOCIAL PROGRAMME

In 2008, JLV, a.s. implemented further steps towards increasing the work productivity through optimising the number of employees with the aim of maintaining the quality of all services.

Work safety, health protection of employees and preventive healthcare was ensured in compliance with the applicable legislation and in cooperation with trade unions.



DORNA
FURN

KARRELL
CALDER



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09 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
Principal activities: — Railway transportation and railway route operation

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 26 May 2009 on the financial statements which are included in this annual report on pages 108 to 147:

"We have audited the accompanying financial statements of České dráhy, a.s., which comprise the balance sheet as of 31 December 2008, 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

► 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 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 assess-

ments, 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 2008, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

► EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the following matter:

As discussed in Note 1.2. to the financial statements, the activities related to freight transportation were spun off into the subsidiary, ČD Cargo, a.s. which was incorporated in the Register of Companies on 1 December 2007. Freight transportation represented a significant portion of the Company's activities in the prior years. For this reason, the information presented in the financial statements for the years ended 31 December 2007 and 2008 is not fully comparable.

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 28 July 2009 on the consolidated financial statements which are included in this annual report on pages 54 to 107:

"We have audited the accompanying consolidated financial statements of the České dráhy, a.s. consolidation group, which comprise the balance sheet as of 31 December 2008, 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

► 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 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 entities' 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 the České dráhy, a.s. consolidation group as of 31 December 2008, 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 RELATED PARTY TRANSACTIONS REPORT

The annual report does not include a report on the transaction between the controlling and controlled entities and transactions between the controlled and other entities controlled by the same controlling entity for the year ended 31 December 2008. The Company's opinion on which the management based this decision is included in this annual report.

► REPORT ON THE ANNUAL REPORT

We have also audited the annual report 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 is consistent, in all material respects, with the financial statements referred to above.

In Prague on 9 September 2009



Audit firm:

Deloitte Audit s.r.o.

Certificate no. 79

Represented by:



Stanislav Staněk

authorised employee

Statutory auditor:



Stanislav Staněk

certificate no. 1674

10 Consolidated financial statements

Notes to the consolidated financial statements for the year ended 31 December 2008

Name of the Company: _____ České dráhy, a. s.

Registered Office: _____ Nábřeží L. Svobody 1222, Praha 1, 110 15

Legal Status: _____ Joint Stock Company

Corporate ID: _____ 70 99 42 26

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► These Consolidated financial statements were compiled on 28 June 2009

► Statutory body of the reporting entity



Ing. Petr Žaluda,
Chairman of the Board of Directors and Chief Executive Officer

> Consolidated balance sheet as of 31.12.08

▶ ASSETS (IN CZK THOUSAND)		31.12.2008	31.12.2007
		Net	Net
TOTAL ASSETS		58,764,806	55,709,840
B.	Fixed assets	46,690,531	47,255,668
B.I.	Intangible fixed assets	666,955	861,775
B.I.1.	Start-up costs	377	616
B.I.2.	Research and development	1,611	93
B.I.3.	Software	331,609	415,952
B.I.4.	Valuable rights	246,843	226,897
B.I.6.	Other intangible fixed assets	252	99
B.I.7.	Intangible fixed assets under construction	79,039	218,118
B.I.8.	Prepayments for intangible fixed assets	7,224	
B.II.	Tangible fixed assets	45,605,900	46,064,201
B.II.1.	Land	6,566,063	7,182,237
B.II.2.	Structures	11,151,330	12,377,369
B.II.3.	Individual movable assets and sets of movable assets	24,991,021	23,687,457
B.II.6.	Other tangible fixed assets	4,054	4,127
B.II.7.	Tangible fixed assets under construction	821,393	1,805,351
B.II.8.	Prepayments for tangible fixed assets	2,065,470	1,000,507
B.II.9.	Valuation difference on acquired assets	6,569	7,153
B.III.	Non-current financial assets	446,784	374,283
B.III.1.	Equity investments in subsidiaries	78,300	47,445
B.III.2.	Equity investments in associates	95,489	51,601
B.III.3.	Other securities and investments	272,995	275,237
B.IV.	Goodwill arising on consolidation	-141,937	-154,294
B.IV.2.	Negative goodwill arising on consolidation	-141,937	-154,294
B.V.	Securities and equity investments under the equity method	112,829	109,703
C.	Current assets	11,946,671	8,373,924
C.I.	Inventories	1,873,127	1,798,509
C.I.1.	Material	1,739,814	1,674,690
C.I.2.	Work in progress and semifinished goods	124,395	101,734
C.I.3.	Products	11	11
C.I.5.	Goods	4,653	8,407
C.I.6.	Prepayments for inventory	4,254	13,667
C.II.	Long-term receivables	71,908	36,470
C.II.1.	Trade receivables	2,228	1,436
C.II.4.	Receivables from partners and association members	19,200	
C.II.5.	Long-term prepayments made	1,468	9,299
C.II.6.	Estimated receivables		332
C.II.7.	Other receivables	49,012	25,403
C.III.	Short-term receivables	5,195,802	5,583,407
C.III.1.	Trade receivables	3,156,110	3,857,272
C.III.4.	Receivables from partners and association members	4,800	
C.III.6.	State - tax receivables	425,003	176,067
C.III.7.	Short-term prepayments made	147,398	286,260
C.III.8.	Estimated receivables	1,369,354	1,170,479
C.III.9.	Other receivables	93,137	93,329
C.IV.	Current financial assets	4,805,834	955,538
C.IV.1.	Cash on hand	43,721	106,252
C.IV.2.	Cash at bank	749,605	849,286
C.IV.3.	Short-term securities and investments	4,012,508	
D. I.	Other assets	127,604	80,248
D.I.1.	Deferred expenses	125,803	78,336
D.I.2.	Complex deferred expenses		62
D.I.3.	Accrued income	1,801	1,850

LIABILITIES (IN CZK THOUSAND)		31. 12. 2008	31. 12. 2007
	TOTAL LIABILITIES & EQUITY	58,764,806	55,709,840
A.	Equity	35,774,598	34,731,355
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	14,333,052	15,594,727
A.II.1.	Share premium	16,197,839	16,438,595
A.II.2.	Other capital funds	-906,533	-866,006
A.II.3.	Gains or losses from the revaluation of assets and liabilities	-958,254	22,138
A.III.	Statutory funds	280,650	240,925
A.III.1.	Statutory reserve fund / Indivisible fund	29,056	2,663
A.III.2.	Statutory and other funds	251,594	238,262
A.IV.	Retained earnings/accumulated losses	-1,187,649	-509,807
A.IV.2.	Accumulated losses brought forward	-1,187,649	-509,807
A.V.	Profit or loss for the current period (+ -)	2,343,501	-597,050
A.V.1.	Profit or loss for the current period	2,339,075	-599,534
A.V.2.	Share in the profit under the equity method	4,426	2,484
A.VI.	Consolidation reserve fund	5,044	2,560
B.	Liabilities	21,135,641	19,141,577
B.I.	Reserves	294,814	250,801
B.I.1.	Reserves under special legislation	79,714	39,504
B.I.4.	Other reserves	215,100	211,297
B.II.	Long-term liabilities	6,252,882	5,837,165
B.II.5.	Long-term prepayments received	297,326	342,743
B.II.9.	Other payables	5,748,538	4,997,775
B.II.10.	Deferred tax liability	207,018	496,647
B.III.	Short-term liabilities	11,252,574	10,057,444
B.III.1.	Trade payables	6,262,924	6,551,703
B.III.4.	Payables to partners and association members	169	
B.III.5.	Payables to employees	1,070,993	1,145,548
B.III.6.	Social security and health insurance payables	522,177	586,839
B.III.7.	State - tax payables and subsidies	304,125	314,123
B.III.8.	Short-term prepayments received	269,958	203,161
B.III.10.	Estimated payables	1,493,446	1,253,545
B.III.11.	Other payables	1,328,782	2,525
B.IV.	Bank loans and borrowings	3,335,371	2,996,167
B.IV.1.	Long-term bank loans	1,401,997	1,636,700
B.IV.2.	Short-term bank loans	1,933,374	1,359,467
C. I.	Other liabilities	422,115	483,703
C.I.1.	Accrued expenses	123,035	170,021
C.I.2.	Deferred income	299,080	313,682
D.I.	Minority equity	1,432,452	1,353,205
D.I.1.	Minority share capital	1,195,983	1,195,983
D.I.2.	Minority capital funds	586	404
D.I.3.	Minority profit funds including retained earnings brought forward	160,343	60,316
D.I.4.	Minority profit or loss for the current period	75,540	96,502

➤ Consolidated profit and loss account structured by the nature of expense method

▶ YEAR ENDED 31.12.08 (IN CZK THOUSAND)		YEAR ENDED 31. 12. 2008	YEAR ENDED 31. 12. 2007
I.	Sales of goods	20,565	216,439
A.	Costs of goods sold	11,511	156,419
+	Gross margin	9,054	60,020
II.	Production	35,755,290	38,855,010
II.1.	Sales of own products and services	34,686,186	38,147,433
II.2.	Change in internally produced inventory	31,221	-2,289
II.3.	Own work capitalised	1,037,883	709,866
B.	Purchased consumables and services	24,875,317	23,358,197
B.1.	Consumed material and energy	8,770,492	8,139,509
B.2.	Services	16,104,825	15,218,688
+	Added value	10,889,027	15,556,833
C.	Staff costs	21,720,802	22,239,171
C.1.	Payroll costs	15,685,407	16,036,982
C.2.	Remuneration to members of statutory bodies	19,580	10,215
C.3.	Social security and health insurance costs	5,231,343	5,414,812
C.4.	Social costs	784,472	777,162
D.	Taxes and charges	53,703	47,668
E.	Depreciation of intangible and tangible fixed assets	3,037,394	3,033,959
KR.	Recognition of negative goodwill arising on consolidation	8,587	8,686
III.	Sales of fixed assets and material	1,118,239	1,490,230
III.1.	Sales of fixed assets	896,847	1,170,677
III.2.	Sales of material	221,392	319,553
F.	Net book value of fixed assets and material sold	400,588	690,805
F.1.	Net book value of sold fixed assets	302,405	474,023
F.2.	Book value of sold material	98,183	216,782
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	1,424,127	91,565
IV.	Other operating income	10,325,420	9,616,613
H.	Other operating expenses	1,034,716	518,318
*	Operating profit or loss	-5,330,057	50,876
VII.	Income from non-current financial assets	8,308	23,102
VII.3.	Income from other non-current financial assets	8,308	23,102
VIII.	Income from current financial assets	118,359	
IX.	Income from the revaluation of securities and derivatives	1,350	
L.	Costs of the revaluation of securities and derivatives	70,260	
X.	Interest income	10,141	15,984
N.	Interest expenses	320,673	254,412
XI.	Other financial income	348,971	396,887
O.	Other financial expenses	475,906	315,951
*	Financial profit or loss	-379,710	-134,390
Q.	Income tax on ordinary activities	110,408	419,332
Q 1.	- due	151,003	52,952
Q 2.	- deferred	-40,595	366,380
**	Profit or loss from ordinary activities	-5,820,175	-502,846
XIII.	Extraordinary income	11,852,101	297
R.	Extraordinary expenses	3,617,311	432
S.	Income tax on extraordinary activities		51
S.1.	- due		51
*	Extraordinary profit or loss	8,234,790	-186
**	Consolidated profit, net of share of profit/(loss) of equity accounted investments	2,414,615	-503,032
	Consolidated profit net of minority interests	2,339,075	-599,534
	Minority profit or loss	75,540	96,502
**	Share of profit/(loss) of equity accounted investments	4,426	2,484
	Share in the profit or loss under the equity method net of minority interests	4,426	2,484
***	Profit for the current period, net of minority interests (+/-)	2,343,501	-597,050

› Consolidated statement of changes in equity year ended 31.12.08

▶ IN CZK THOUSAND)

	Share capital	Share premium	Other capital funds	Revaluation gains or losses on assets and liabilities	Statutory and other funds from profit	Consolidation reserve fund	Accumulated losses brought forward	Profit or loss for the current period	Share of income from associates	TOTAL EQUITY	Minority share capital	Minority capital funds	Minority funds from profit incl. retained earnings and accumulated losses	Minority profit or loss for the period	TOTAL MINORITY EQUITY
Balance at 31.12.2006	20,000,000	16,733,236	-843,987	14,925	296,810	189	-53,186	-447,517	2,371	35,702,841	1,528,627	312	26,710	51,664	1,607,313
Distribution of profit and loss					9,104	2,371	-456,621	447,517	-2,371				51,664	-51,664	
Creation of the social fund with a charge against share premium		-294,641			294,641										
Creation of the social fund - other					13,056					13,056					
Use of the social fund					-365,837					-365,837					
Use of other funds					-6,849					-6,849					
Revaluation of non-current financial assets				7,213						7,213		92			92
Profit or loss for the current period								-599,534	2,484	-597,050					
Other			-22,019							-22,019			766		766
Impact of the decrease in the share capital in CDT											-332,644		-18,824		-351,468
Minority profit or loss for the current period														96,502	96,502
Balance at 31.12.2007	20,000,000	16,438,595	-866,006	22,138	240,925	2,560	-509,807	-599,534	2,484	34,731,355	1,195,983	404	60,316	96,502	1,353,205
Distribution of profit or loss					78,308	2,484	-677,842	599,534	-2,484				96,502	-96,502	
Creation of the social fund with a charge against share premium		-240,756			240,756										
Creation of the social fund - other					51,255					51,255			354		354
Use of the social fund					-333,103					-333,103			-2,010		-2,010
Revaluation of non-current financial assets				65,061						65,061		182			182
Change in fair value of financial derivatives				-1,295,784						-1,295,784					
Change in deferred tax from financial derivatives				250,331						250,331					
Profit or loss for the current period								2,339,075	4,426	2,343,501					
Other			-40,527		2,509					-38,018			5,181		5,181
Minority profit or loss for the current period														75,540	75,540
Balance at 31.12.2008	20,000,000	16,197,839	-906,533	-958,254	280,650	5,044	-1,187,649	2,339,075	4,426	35,774,598	1,195,983	586	160,343	75,540	1,432,452

> Consolidated cash flow statement

▶ YEAR ENDED 31. 12.08 (IN CZK THOUSAND)		YEAR ENDED 31. 12. 2008	YEAR ENDED 31. 12. 2007
P.	Opening balance of cash and cash equivalents	955,538	2,285,557
	<i>Cash flows from ordinary activities</i>		
Z.	Profit or loss from ordinary activities before tax	-5,705,341	-81,030
A.1.	Adjustments for non-cash transactions	4,377,387	2,456,017
A.1.1.	Depreciation of fixed assets	3,046,565	3,042,645
A.1.2.	Change in provisions and reserves	1,424,127	91,565
A.1.3.	Profit/(loss) on the sale of fixed assets	-594,442	-696,654
A.1.4.	Revenues from dividends and profit shares	-8,308	-23,512
A.1.5.	Interest expense and interest income	310,532	238,428
A.1.6.	Adjustments for other non-cash transactions	198,913	-196,455
A.°	Net operating cash flow before changes in working capital	-1,327,954	2,374,987
A.2.	Change in working capital	38,051	1,390,692
A.2.1.	Change in operating receivables and other assets	96,737	152,413
A.2.2.	Change in operating payables and other liabilities	160,686	1,150,751
A.2.3.	Change in inventories	-219,372	85,421
A.2.4.	Change in current financial assets		2,108
A.°°	Net cash flow from operations before tax and extraordinary items	-1,289,903	3,765,679
A.3.	Interest paid	-264,346	-215,717
A.4.	Interest received	10,141	15,984
A.5.	Income tax paid from ordinary operations	-148,504	-17,396
A.6.	Receipts and expenditures relating to extraordinary activities	11,871,607	-186
A.7.	Received dividends and profit shares	8,308	23,512
A.°°°	Net operating cash flows	10,187,303	3,571,875
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-7,900,402	-6,375,421
B.2.	Proceeds from fixed assets sold	896,870	1,170,562
B.3.	Loans provided to related parties	-24,000	
B.°°°	Net investment cash flows	-7,027,532	-5,204,859
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	972,373	662,559
C.2.	Impact of changes in equity	-281,848	-359,594
C.2.3.	Other cash contributions made by partners	51,255	13,092
C.2.5.	Direct payments from capital funds	-333,103	-372,686
C.°°°	Net financial cash flows	690,525	302,965
F.	Net increase or decrease in cash and cash equivalents	3,850,296	-1,330,019
R.	Closing balance of cash and cash equivalents	4,805,834	955,538

Notes to the consolidated financial statements ČD, a.s.

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1 General information

▶ 1.1. Background Information

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

The Parent Company's registered office is located at Nábř. L. Svobody 1222/12, Prague 1.

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

The consolidated financial statements have been prepared as of and for the year ended 31 December 2008.

The sole shareholder of the Parent 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 into ČD Cargo, a.s. which was recorded in the Register of Companies as of 1 December 2007.

Pursuant to applicable legislation, the Parent Company also operates railway routes. The assets comprising the railway routes are in the ownership of the State, not the Parent Company. The right of management of these assets rests with the state organisation Railway Route Administration (Správa železniční dopravní cesty, státní organizace - 'SŽDC'). As of 30 June 2008, the Parent Company sold a portion of its business to SŽDC as described in Note 1.6. For this reason, the Parent Company ceased to be responsible for securing the operability of the railway route but it continues to service the route.

Due to the sale of the part of business to SŽDC as referred to above, the financial information for the years ended 31 December 2007 and 2008 is not fully comparable.

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

▶ 1.3. Organisational Structure of the Parent Company

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

- ▶ The section of the 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 Marketing and Communication.

In 2008, the Company formed two new sections – the section of the Company's Deputy CEO for Human Resources and the section of the Company's Deputy CEO for Marketing and Communication.

► 1.4. The Parent Company's Bodies

> The Company's Bodies as of 31 December 2008

	POSITION	NAME
Steering Committee	Chairman	Petr Šlegr
	Vice Chairman	Jiří Hodač
	Member	Vojtěch Kocourek
	Member	Miroslav Kalous
	Member	Miloslav Müller
	Member	Petr Polák
	Member	Bohumil Haase

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

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.

Through its Resolution No. 161 dated 2 February 2009, 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 Jiří Hodač, Vice Chairman of the Steering Committee, and Vojtěch Kocourek, member of the Steering Committee, and authorised Zdeněk Žák to be the Vice Chairman of the Steering Committee and Pavel Škvára to be a member of the Steering Committee with effect from 3 February 2009.

	POSITION	NAME
Board of Directors	Chairman	Petr Žaluda
	Member	Petr Moravec
	Member	Michal Nebeský
	Member	Jiří Kolář
	Member	Milan Matzenauer
	Member	Josef Bazala

In addition, through its Resolution No. 505 dated 20 April 2009 and Resolution No. 555 dated 27 April 2009, the Government changed the composition of the Company's Steering Committee. As of 20 April 2009, the Government revoked the authorisation for activity for Petr Šlegr, Chairman of the Steering Committee, and Zdeněk Žák, Vice Chairman of the Steering Committee, and authorised Pavel Škvára to be the Vice Chairman of the Steering Committee from 21 April 2009, Eduard Havel to be a member of the Steering Committee from 20 April 2009, and Roman Boček to be the Chairman of the Steering Committee from 27 April 2009.

	POSITION	NAME
Supervisory Board	Chairman	Vojtěch Kocourek
	Member	Jan Bitter
	Member	Karel Březina
	Member	Jan Černohorský
	Member	Jaromír Dušek
	Member	Tomáš Chalánek
	Member	Kratochvíl
	Member	Zdeněk Prosek
	Member	Martin Roman

As of 29 January 2008, Josef Bazala resigned from the position of the Chairman of the Board of Directors and remained in the position of a member of the Board of Directors. As of 31 January 2008, Rodan Šenekl resigned from the position of a member of the Board of Directors. On 1 February 2008, the Supervisory Board of the Company appointed Petr Žaluda to the position of the Chairman and member of the Board of Directors. On 15 March 2008, Petr Moravec was appointed member of the Board of Directors. On 11 September 2008, Vladimír Filip resigned from the position of member of the Board of Directors and on 12 September 2008, Michal Nebeský was appointed to be a member of the Board of Directors. On 13 November 2008, Petr David was recalled from the position of the member of the Board of Directors and with effect from 14 November 2008, Milan Matzenauer was appointed to be a member of the Board of Directors.

On 31 December 2008, Jaromír Dušek's and Jiří Kratochvíl's terms of office as members of the Supervisory Board expired and on 1 January 2009, the term of office of the newly appointed members of the Supervisory Board, Vladislav Vokoun and Antonín Leitgeb, commenced.

On 18 February 2009, the Steering Committee of the Company approved Vojtěch Kocourek's notice of resignation from the positions of Chairman and the member of the Supervisory Board and recalled a member of the Supervisory Board, Jan Černohorský. With effect from 19 February 2009, the Steering Committee of the Company appointed Zdeněk Žák to be the Chairman and member of the Supervisory Board, and Pavel Škvára to be a member of the Supervisory Board.

In addition, the Steering Committee recalled Zdeněk Žák from the position of Chairman and member of the Company's Supervisory Board on 28 April 2009.

At its extraordinary meeting on 4 June 2009, the Steering Committee appointed Jaroslav Král as a member of the Supervisory Board of the Company.

► 1.5. Formation and Incorporation of the Parent Company

On the basis of Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Route Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended (the 'Transformation Act'), the 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. As of this date, 18 business units and a part of the section of the Company's General Directorate was spun-off from the Company and transferred to SŽDC.

In place of the Company, SŽDC secures the operability of the national and regional railway network and organises railway transportation on these routes, which includes preparation of the railway timetable and fire brigade activities, i.e. independently performs certain railway operation activities. For this purpose, the Company's relevant material, technological and human resources were transferred to SŽDC. Other railway operation activities (railway servicing and organising railway transport under extraordinary circumstances) including the relevant capacities remained the responsibility of the Company, which delivers the activities to SŽDC, the railway operator, as a contractor.

The selling price stated in the contract for the sale of part of the Company's business was CZK 11,852,101 thousand. The price was arrived at based on an expert's valuation of the part of the business. The impact of this transaction on the results of operations of the Company was the profit of CZK 8,192,260 thousand.

In the third quarter of 2008, financial transactions and accounting entries based on the above-mentioned contract and relating agreements were effected. The selling price and the carrying amount of the assets of the sold part of the Company's business are presented in the extraordinary section of the profit and loss account. The sale also included payables in the amount of CZK 1,758,641 thousand, which were paid by the Company based on a separate contract for the settlement of the payables to creditors.

The table below presents the carrying amounts of individual classes of assets and liabilities that were subject to the sale. The table summarises the assets and liabilities that were removed from the Company's accounts as of the sale date.

ASSETS (CZK '000)	CARRYING AMOUNT AS OF 30 JUNE 2008
Intangible fixed assets	41,053
Tangible fixed assets	3,271,415
Inventory	151,296
Receivables	181,634
Current financial assets	14,427
Other assets	16
Total	3,659,841

2 Definition of the consolidation group (Hereinafter also the “group”)

The consolidation group of České dráhy for the year ended 31 December 2008 consists of the following entities:

Name	Registered office	Corporate ID	Ownership percentage	Degree of influence	Consolidation method in 2008	Consolidation method in 2007
České dráhy, a. s.	Prague 1, Nábřeží L.Svobody 1222	70994226	---	---	---	---
Traťová strojní společnost, a. s.	Hradec Králové Jičínská 1605	27467295	51	Control	Full	Full
ČD - Telematika a. s.	Prague 3, Pernerova 2819/2a	61459445	59,31	Control	Full	Full
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	27257258	100	Control	Full	Full
DPOV, a. s.	Přerov, Husova 635/1b	27786331	100	Control	Full	Full
Jídelní a lůžkové vozy, a. s.	Prague 4, Chodovská 3/228,	45272298	38,79	Significant	Equity	Equity
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678	100	Control	Full	Full

Changes in the Composition of the Group

There were no year-on-year changes in the consolidation group.

The date of the financial statements of companies included in the group is 31 December 2008. ČD Cargo, a. s. prepared the first set of its financial statements as of 31 December 2008, i.e. the first reporting period covered the period of 13 months. The consolidation package of ČD Cargo, a.s. for the period from 1 January to 31 December 2008, i.e. 12 months, was used for consolidation reporting purposes.

Companies Excluded from the Consolidation

The Parent Company decided to exclude the entities whose share in the consolidation group is immaterial in terms of aggregate assets, net turnover and equity even though the Parent Company exercises controlling or significant influence over these entities.

Name	Registered office	Ownership percentage	Owner
Dopravní vzdělávací institut, a. s.	Prague 1, Hybernská 1014/13 *)	100	ČD, a. s.
RailReal, a. s.	Prague 3, Olšanská 1a	66	ČD, a. s.
ČD travel, s.r.o.	Prague 1, Hybernská 1034 **)	51,72	ČD, a. s.
RAILREKLAM, spol. s r.o.	Prague 1, Klimentská 36/1652	51	ČD, a. s.
Centrum Holešovice a. s.	Prague 1, Revoluční 767/25	51	ČD, a. s.
ČD Reality, a. s.	Prague 6, Václavkova 169/1	51	ČD, a. s.
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	51	ČD, a. s.
Žižkov Station Developement, a. s.	Prague 8, Ke Štvanici 656/3	51	ČD, a. s.
CR-City a. s.	Prague 3, Olšanská 1a	34	ČD, a. s.
CR office a. s.	Prague 3, Olšanská 2643/1a	34	ČD, a. s.
Masaryk Station Development a. s.	Prague 3 Olšanská 1a	34	ČD, a. s.
RS hotel a. s.	Prague 3, Olšanská 2643/1a	34	ČD, a. s.
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	34	ČD, a. s.
WHITEWATER a. s.	Prague 3, Olšanská 2643/1a	34	ČD, a. s.
ČD Restaurant, a. s.	Prague 3, Prvního pluku 81/2a	27,76	ČD, a. s.(20%) and JLV (20%)
ČD Generalvertretung GmbH	Frankfurt am Main, Kaiserstrasse 60, SRN	100	ČD Cargo, a. s.
Koleje Czeskie Sp. Z o. o.	Warszawa, Wspólna 35/5, Polsko	100	ČD Cargo, a. s.
ČD Generalvertretung Wien	Wien, Rotenturmstrasse 22/24	100	ČD Cargo, a. s.
Generálne zastúpenie ČD Cargo, s.r.o.	Bratislava, Prievozská 4/B	100	ČD Cargo, a. s.
Terminál Brno, a.s.	Brno, K terminálu 614/11	61	ČD Cargo, a. s.
ČD-DUSS Terminál, a. s.	Lovosice, Lukavecká 1189	51	ČD Cargo, a. s.
ČD Trans s.r.o.	Brest, K. Marxe 19, Bělorusko	51	ČD Cargo, a. s.
RAILLEX, a. s.	Prague 1, Hybernská 1014/13	50	ČD Cargo, a. s.
ČD Logistics, a. s.	Prague 10, K Hrušovu 293/2 ***)	34	ČD Cargo, a. s.
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6	30	ČD Cargo, a. s.
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 619/9	20	ČD Cargo, a. s.
CDT International s.r.o.	Prague 3, Pernerova 2819/2a	40	ČD-T, a. s.
XT-CARD a. s.	Prague 8, Sokolovská 100/94	34	ČD-T, a. s.
CZ Servis, s.r.o.	Prague 4, Chodovská 3	100	JLV, a. s.
JSC-Servis, a. s. v likvidaci	Česká Lípa, Okružní 2338	84,85	JLV, a. s.
BK Team, a.s.	Prague 4, Chodovská 3/228	45	JLV, a. s.
JPServis, a. s.	Prague 4, Chodovská 3	20,45	JLV, a. s.
Dallmayr&JLV Automaty s.r.o.	Prague 1, Politických vězňů 1597	30	JLV, a. s.

*) Change in the registered office to Prague 3, Husitská 42/22 pursuant to the registration in the Register of Companies on 12 March 2009

**) Change in the registered office to Prague 1, Na Příkopě 988/31 pursuant to the registration in the Register of Companies on 19 January 2009

***) Change in the registered office to Prague 1, Opletalova 1284/37 pursuant to the registration in the Register of Companies on 26 January 2009

Information from the Financial Statements of the Companies Excluded from the Consolidation Group

AS OF 31 DECEMBER 2008			(CZK'000)
Name	Aggregate assets	Equity	Net turnover
Dopravní vzdělávací institut, a. s.	24,761	8,618	114,154
RaiReal, a. s.	4,003	-140	0
ČD travel, s.r.o.	46,117	15,657	299,980
RAILREKLAM, spol. s r.o.	88,440	46,260	163,707
Centrum Holešovice a. s.	11,586	1,683	0
ČD Reality, a. s.	29,398	7,633	26,488
Smíchov Station Development, a. s.	30,312	-3,387	0
Žižkov Station Development, a. s.	3,440	1,917	0
CR-City a. s.	18,108	1,085	102
CR office a. s.	171,756	1,431	0
Masaryk Station Development a. s.	15,080	-5,615	5,123
RS hotel a. s.	1,585	1,581	0
RS residence s.r.o.	1,872,628	148,250	2,671
WHITEWATER a. s.	1,529	1,525	0
ČD Restaurant, a. s.	32,437	17,116	34,361

The financial statements of all the companies both included in and excluded from the consolidation process are available for examination at the premises of the Parent Company located at Nábřeží L. Svobody 1222, Prague 1.

► **2.1. Subsidiaries**

The following table shows information about the companies in the Group as of 31 December 2008:

Name	Place of incorporation (or registration) and operation	Ownership interest in %	Voting power in %	Principal activity
Traťová strojní společnost, a. s. („TSS“)	Pardubice	51	51	Operation of special railway machines and facilities for the construction, renovation, and maintenance of railways, including their repairs and production of spare parts
ČD - Telematika a. s. („CD-T“)	Prague	59,31	59,31	Provision of telecommunication services, software and advisory services
Výzkumný Ústav Železniční, a. s. („VUZ“)	Prague	100	100	Research, development and testing of rail vehicles and infrastructure facilities
DPOV, a. s. („DPOV“)	Přerov	100	100	Inspections, repairs, modernisation and renovation of railway vehicles
ČD Cargo, a. s. (ČDCargo“)	Prague	100	100	Freight railway transportation

Traťová strojná společnost, a.s. was recorded in the Register of Companies on 1 January 2005. The entity was formed through the investment of part of the Parent Company's business. On 15 January 2005, the contract for the investment of OHL ŽS, a.s. Brno in Traťová strojná společnost, a.s. was signed. The investment decreased the investment of České dráhy from 100 percent to 51 percent. The change was recorded in the Register of Companies on 15 February 2006.

Výzkumný Ústav Železniční, a.s. was recorded in the Register of Companies on 1 July 2005. The entity was formed through the investment made by the Parent Company.

In 2003, the Parent Company acquired a 34 percent investment in ČD – Telematika a.s. based on the contract for the assignment of a receivable with MORÁVKA CENTRUM, a.s. for the acquisition cost of CZK 230,744 thousand. In 2004, the Parent Company increased its equity investment in ČD – Telematika a.s. from 34 percent to 40 percent through the capitalisation of the receivable of CZK 297,000 thousand. In 2005, the Parent Company increased the investment in ČD - Telematika a.s. from 40 percent to 51 percent through the investment of the business part, recorded in the Register of Companies on 4 May 2005. In 2006, the investment of the Parent Company in ČD – Telematika a.s. amounted to 51 percent. On 28 June 2006, the General Meeting of ČD – Telematika a.s. decided to decrease the share capital by CZK 332,644 thousand, through the paid withdrawal of shares from circulation. This decrease in the share capital was not recorded in the Register of Companies as of 31 December 2006. It was recorded in the Register of Companies on 13 February 2007 and the investment of České dráhy, a.s. in the entity increased to 59.31 percent.

DPOV, a. s. was registered in the Register of Companies on 1 January 2007. The entity was formed through a spin-off from České dráhy, a. s.

ČD Cargo, a. s. was registered in the Register of Companies on 1 December 2007. The entity was formed through the spin-off of the part of the business of České dráhy, a. s. engaged in railway freight transport.

► 2.2. Associates

Name	Place of formation (or registration) and operation	Equity investment (in %)	Voting rights (in %)	Principal activity
Jídelní a lůžkové vozy, a. s. („JLV“)	Prague	38,79	38,79	Provision of accommodation and catering services

On 28 June 2006, České dráhy, a. s. purchased the investment held by the Czech National Property Fund in Jídelní a lůžkové vozy, a. s. This transaction was approved by the European Commission on 22 June 2006. The Parent Company thus became the owner of the 38.79 percent equity investment in Jídelní a lůžkové vozy, a. s.

3 Accounting policies and general accounting principles

The financial statements are prepared and presented in accordance with the Accounting Act 563/1991 Coll., as amended and modified by Acts 117/1994 Coll., 227/1997 Coll., 492/2000 Coll., 353/2001 Coll., 575/2002 Coll., 437/2003 Coll., 257/2004 Coll., 669/2004 Coll., 179/2005 Coll., 495/2005 Coll., 57/2006 Coll., 81/2006 Coll., 230/2006 Coll., 264/2006 Coll., 69/2007 Coll., 261/2007 Coll., 296/2007 Coll., and 348/2007 Coll. and Regulation 500/2002 Coll., which provides implementation guidance on certain provisions of the Accounting Act 563/1991, as amended, for reporting entities that are businesses maintaining double-entry accounting records, as amended by Regulations 472/2003 Coll., 397/2005 Coll. and 349/2007 Coll.; and Czech Accounting Standards for Businesses.

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. and Note 4.14., 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 (the 'Transformation Act') 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.

▶ 3.1. Scope of Consolidation and the Consolidation Method

Consolidation is performed using the direct consolidation method. Direct consolidation involves consolidating all of the accounting entities of the Group at once without using the any consolidated financial statements presented for consolidation sub-groups.

The Group of companies consists of the Parent Company, České dráhy, a.s., and its subsidiaries (ČD-T, TSS, VUZ, DPOV and ČD Cargo) and an associate (JLV), refer to Notes 2.1 and 2.2. The definition of subsidiaries and associate is as follows:

Subsidiaries

- ▶ Investments in enterprises in which the Parent Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as 'Equity investments in subsidiaries'.
- ▶ For consolidation purposes, a subsidiary is a company where the Parent Company has a controlling influence through the ownership of more than 50 percent of shares/capital interests.

These companies are consolidated using the full consolidation method.

Associates

▶ 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'.

▶ For consolidation purposes, an associate is a company where the Parent Company has a significant influence, i.e.: It holds more than 20 percent of shares/ capital interests and does not exercise controlling influence.

These companies are consolidated using the equity method of accounting.

▶ 3.2. Full Consolidation Method

▶ 3.2.1. Description of Full Consolidation Method

The full consolidation method involves:

- a) Inclusion, after possible reclassifications and adjustments, of each item of the balance sheet and profit and loss account of subsidiaries in the balance sheet and profit and loss account of the Parent Company;
- b) Elimination of accounting transactions between accounting entities of the Group which express mutual relations;
- c) Presentation of goodwill arising on consolidation, if any, and its amortisation;
- d) Allocation of equity of subsidiaries and their profit or loss among the equity interest attributable to the Parent Company and the equity interest attributable to minority holders of equity securities and equity interests issued by consolidated entities; and
- e) Elimination of equity securities and equity interests issued by the subsidiary and the controlling entity and the equity of the controlling equity which relates to the eliminated equity securities and interests.

▶ 3.2.2. Stages of the Full Consolidation Method

Reclassification of and adjustments to items of financial statements of the Parent Company and subsidiaries.

The reclassification of the Parent Company's and subsidiaries' information is made taking into account items added to the consolidated balance sheet and the consolidated profit and loss account and their economic substance.

The adjustments are made following the valuation principles stated in the consolidation rules. These adjustments are only made in subsidiaries whose valuation principles differ from the valuation principles set out in the consolidation rules and would have a material impact on the valuation of the assets in the consolidated financial statements and the reported profit or loss.

Adding the financial statements data of the Parent Company and subsidiaries.

The Parent Company adds reclassified and adjusted information from its financial statements to the reclassified and adjusted information from the financial statements of its subsidiaries.

Elimination of mutual transactions between the Parent Company and its subsidiaries.

Elimination of transactions which do not influence profit or loss.

Mutual intercompany receivables and payables and expenses and income which have a material impact on assets, liabilities and profit or loss items in the consolidated financial statements are fully eliminated.

Elimination of transactions which influence profit or loss.

Upon the preparation of the consolidated balance sheet and the consolidated profit and loss account, mutual transactions between the Parent Company and subsidiaries or between subsidiaries which have a material impact on the profit or loss of the Group are eliminated, among others, in the following cases:

- a) Intercompany sale and purchase of inventory
- b) Intercompany sale and purchase of fixed assets; and
- c) Payment of dividends or profit shares.

When the full consolidation method is used, mutual transactions between the Parent Company and subsidiaries and between subsidiaries are eliminated.

The elimination of mutual transactions which influence the profit or loss is carried out in accordance with the stated consolidation rules.

When the profit or loss arising from intercompany purchases and sales of inventory is eliminated, the valuation of inventory and revenue arising from the sale of inventory is adjusted in the consolidated balance sheet and the consolidated profit and loss account. For the purposes of adjusting these consolidated financial statements items, in adjusting income and the change in valuation of inventory, the average supplier return on sales from the total profit or loss or operating profit or loss can be used or industry or product yield return of the supplier or an alternative, more accurate, procedure can be used.

When the profit or loss arising from the purchase and sale of fixed assets is eliminated, the revenues from the sale of fixed assets are adjusted to reflect the difference between the sales price and the supplier's carrying value. Accumulated depreciation of fixed assets in the consolidated financial statements is also adjusted.

Goodwill arising on consolidation.

Goodwill arising on consolidation represents the difference between the cost of an investment in a subsidiary and its value determined on the basis of the Parent Company's interest in the fair value of equity which arises as a difference of fair values of assets and fair values of liabilities as of the date of acquisition or as of the date of a further capital increase (a further increase of securities or investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated company.

Goodwill arising on consolidation is amortised on a straight line basis over 20 years if there are no reasons for a shorter amortisation period. The selected amortisation period must be clearly provable and must not breach the principle of the true and fair presentation of the subject-matter of accounting and the financial position of the company. Goodwill arising on consolidation is debited to the positive consolidation goodwill in expenses on ordinary activities or credited to negative consolidation goodwill in income on ordinary activities as appropriate.

Amortisation charges of goodwill arising on consolidation are recognised in a special consolidated profit and loss account line item.

Division of consolidated equity and elimination of equity securities and equity interests.

The division of equity in the consolidated balance sheet involves the separation of majority equity interest consisting of the sum of the Parent Company's equity and its interest in the equity of subsidiaries from minority interests, i.e. the remaining equity interests of other shareholders and owners of these consolidated entities.

Equity interests issued by a subsidiary and the equity of a subsidiary related to the equity interests held by the Parent Company are eliminated from the consolidated balance sheet.

Minority equity

These are liability balance sheet items where minority equity interests in subsidiaries are presented and classified into interest in share capital, capital funds, funds from profit, retained earnings/accumulated losses and profit or loss for the current period.

Distribution of consolidated profit or loss for the current period

The Group's profit or loss for the current period is distributed in the consolidated profit and loss account between the consolidated profit or loss for the current period attributable to the Parent Company and the minority share in profit or loss attributable to other subsidiary shareholders and owners as appropriate.

► 3.3. Consolidation using the Equity Method of Accounting

► 3.3.1. Description of Consolidation using Equity Accounting

The equity method of accounting represents the following adjustments to the financial statements information of the entity with significant influence:

- a) Eliminating equity interests issued by an associate from the balance sheet of the entity exercising significant influence and replacing them by a stand-alone balance sheet item of interests valued using equity accounting in the amount of equity interests in the associate;
- b) Settlement of the difference between the valuation of interests and the consolidation balance sheet item of the equity-accounted interest through the recognition of:
 - ba) The consolidation reserve fund which represents accumulated shares in the profit or loss under equity accounting for the prior periods of associates from the date of their acquisition. The consolidation reserve fund also includes subsidiary interests in total changes in other equity (i.e. net of profit or loss) for the relevant period.

Share in profit or loss under equity accounting.

Share in profit or loss under equity accounting relates to the profit or loss of the associate for the current period and its amount is arrived at based on the investment of the entity exercising significant influence over the associate and based on the actual profit or loss of the associate for the period from the

acquisition date to the end of the reporting period when the associate was acquired. In the following years, consolidated profit or loss under equity accounting is calculated as the product of the equity investment and the profit or loss of the associate for the period.

If consolidation is carried out using the direct method, the proportionate part of the profit or loss of the associate attributable to the investment of the entity exercising significant influence over the associate is taken over based on direct and indirect investments.

If the method of equity accounting is used, clearly determinable mutual relations which have a significant impact on the value of equity and profit or loss of the associate for the current period are eliminated.

Goodwill arising on consolidation is treated on the same basis as under the full consolidation method.

4 Summary of significant accounting policies

► 4.1. 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 and buildings) and CZK 60 thousand (intangible assets) on an individual basis. Land and buildings are treated as fixed assets irrespective of their cost valuation.

Intangible fixed assets are valued at acquisition cost. The Parent 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 previously not 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
Locomotives	20 – 25
Passenger coaches	20
Wagons	25 – 33
Machinery and equipment	8 – 20
Optical fibres	35
Intangible assets	1,5-6

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

► 4.2. 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 provided 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 entity 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 recognised at cost upon acquisition and subsequently revalued at the consolidated 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.

► 4.3. 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 consolidated 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.

► 4.4. 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 consolidated balance sheet date are reported as short-term balances. Other receivables are recorded as long-term.

At the consolidated balance sheet date, the Parent Company records 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 Group does not recognise provisions against receivables from subsidiaries and SŽDC, s. o.

► 4.5. 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 consolidated balance sheet date are reported as short-term balances. Other payables are recorded as long-term.

► 4.6. Loans

Loans are stated at their nominal value.

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

Borrowing costs arising from loans attributable to the acquisition, construction or production of fixed assets incurred until the assets are brought into use are added to the cost of those assets. All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

► 4.7. 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 2004, 31 December 2005, 31 December 2006, 31 December 2007 and 31 December 2008 is negative.

Valuation 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 and ČD Cargo, a.s. have created a social fund. The creation of and drawing from the fund are governed by the Parent Company's internal guidelines.

► 4.8. 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 or certain 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 consolidated balance sheet date.

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

The reserve for customer claims in freight transportation is recognised on the basis of the qualified estimate of expenses.

The reserve for repairs of assets is recognised for individual machines according to the planned repairs.

► 4.9. 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 consolidated 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.

► 4.10. 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.

4.11. Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from 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. The Parent Company's liability for current tax is calculated using the tax rate that has been enacted by the consolidated balance sheet date.

► 4.12. 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 consolidated 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.

► 4.13. Contractual Fines and Default Interest

In accordance with Czech legislation ruling at the consolidated 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.

► 4.14. Financial Derivatives

Within the České dráhy Group, only ČD Cargo has concluded financial derivatives. The company designates derivative financial instruments as either trading or hedging. The company's criteria for a derivative instrument to be accounted for as a hedge are as follows:

- At the inception of the hedge, a decision was made regarding hedged items and hedging instruments, the approach to establishing and documenting whether the hedge is effective, and the hedging relationship is formally documented;
- The hedge is highly effective (that is, within a range of 80 percent to 125 percent); and
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis.

If derivative instruments do not meet the criteria for hedge accounting referred to above, they are treated as trading derivatives.

Derivative financial instruments are carried at fair value at the balance sheet date. In determining the fair value, the Company used a reasonable estimate.

The fair value of financial derivatives is determined as the present value of expected cash flows arising from these transactions. The present value is established on the basis of common market-recognised models. Parameters identified on an active market such as foreign exchange rates, yield curves, volatility of relevant financial instruments etc are subsequently included in these pricing models. Fair value changes in respect of trading derivatives are recognised as an expense or income from derivative transactions as appropriate.

Accounting policies by type of the hedging relationship are used for hedging derivatives. The company uses the cash flow hedge method.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a legally enforceable contract, a forecasted future transaction, groups of assets, groups of liabilities, legally enforceable contracts or forecasted future transactions with similar characteristics where the same type and category of risk is the subject of the hedge. Gains or losses arising over the term of the hedge from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to the hedged risks are retained on the balance sheet. The gains or losses are taken to income or expenses in the same period in which the income or expenses associated with the hedged item are recognised.

In circumstances where this takes place before the maturity of the derivative, this derivative is internally classified as a fair value hedge derivative. Gains or losses arising from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to unhedged risks are recorded as expenses or income from derivative transactions at the measurement date.

► 4.15. 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.

► 4.16. Revenue Recognition

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

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

Other revenues of the Group 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.

► 4.17. 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.

► 4.18. 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, and the sale of part of business.

► 4.19. Changes in Accounting Policies

In the year ended 31 December 2008, the Company changed the policy of accounting for bonuses. In the year ended 31 December 2008, the Company recognised an accounting estimate while it recognised a reserve in the year ended 31 December 2007. Except for this change, the Group made no other year-on-year changes.

► 4.20. 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 2008	31 Dec 2007
Cash on hand and cash in transit	43,721	106,252
Cash at bank	749,605	849,286
Short-term securities and investments	4,012,508	0
Total cash and cash equivalents	4,805,834	955,538

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

The balance of short-term securities includes deposit bills of exchange of Komerční banka in the amount of CZK 4,009,250 thousand and the interest on these bills of exchange of CZK 3,258 thousand.

5 Additional information on the consolidated balance sheet and profit and loss account

► 5.1. Intangible Fixed Assets

(CZK '000)							
Acquisition cost	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Start-up costs	1,192	0	0	1,192	0	0	1,192
Research and development	102,757	0	105	102,652	1,577	191	104,038
Software	970,113	602,246	23,409	1,548,950	239,444	468,588	1,319,806
Valuable rights	1,985,544	7,337	0	1,992,881	210,231	0	2,203,112
Other assets	1,061	0	0	1,061	270	301	1,030
Intangible assets under construction	393,620	434,658	610,160	218,118	339,241	478,320	79,039
Prepayments for intangible fixed assets	0	77	77	0	7,565	341	7,224
Total	3,454,287	1,044,318	633,751	3,864,854	798,328	947,741	3,715,441

(CZK '000)							
Accumulated amortisation	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Start-up costs	338	238	0	576	239	0	815
Research and development	102,650	13	104	102,559	59	191	102,427
Software	894,969	258,713	20,684	1,132,998	82,866	266,135	949,729
Valuable rights	1,752,463	13,521	0	1,765,984	191,042	757	1,956,269
Other assets	962	20	20	962	28	212	778
Intangible assets under construction	0	0	0	0	0	0	0
Total	2,751,382	272,505	20,808	3,003,079	274,234	267,295	3,010,018

(CZK '000)							
Provisions	Balance at 1 Jan 2007	Additions	Disposals	Balance 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Software	0	0	0	0	38,468	0	38,468
Total	0	0	0	0	38,468	0	38,468

(CZK '000)			
Net book value	Balance at 1 Jan 2007	Balance at 31 Dec 2007	Balance at 31 Dec 2008
Start-up costs	854	616	377
Research and development	107	93	1,611
Software	75,144	415,952	331,609
Valuable rights	233,081	226,897	246,843
Other assets	99	99	252
Intangible assets under construction	393,620	218,118	79,039
Prepayments for intangible fixed assets	0	0	7,224
Total	702,905	861,775	666,955

In the year ended 31 December 2008, the Company disposed of a part of intangible fixed assets due to the sale of a business part as of 1 July 2008. The aggregate net book value of disposed of intangible fixed assets in this sale amounted to CZK 41,053 thousand.

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 additionally include software for the monitoring of trains, train traffic management, expenses relating to the SAP R/3, IS OPT, SENA, and PARIS accounting software. Additions to valuable rights predominantly include licences for access rights for software.

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

► 5.2. Tangible Fixed Assets

(CZK '000)							
Acquisition cost	Balance at 1 Jan 2007	Additions	Disposals	Balance 31 Dec 2007	Additions	Disposals	Balance 31 Dec 2008
Land	7,216,393	26,989	57,868	7,185,514	45,924	659,500	6,571,938
Buildings	24,485,999	887,508	201,774	25,171,733	1,392,262	6,301,908	20,262,087
Individual movable assets	57,725,526	5,063,071	2,236,718	60,551,879	6,074,424	6,722,243	59,904,060
- Machinery, equipment, and furniture and fixtures	6,911,025	178,027	556,151	6,532,901	412,291	3,171,538	3,773,654
- Vehicles	50,524,735	4,840,960	1,658,694	53,707,001	5,645,308	3,422,776	55,929,533
- Other	289,766	44,084	21,873	311,977	16,825	127,929	200,873
Other assets	4,542	0	13	4,529	0	291	4,238
Tangible assets under construction	818,014	6,964,933	5,977,596	1,805,351	7,136,468	8,120,426	821,393
Prepayments	1,645,174	1,527,068	2,171,735	1,000,507	1,972,148	907,185	2,065,470
Valuation difference	8,321	0	0	8,321	0	0	8,321
Total	91,903,969	14,469,569	10,645,704	95,727,834	16,621,226	22,711,553	89,637,507

(CZK '000)							
Accumulated depreciation	Balance at 1 Jan 2007	Additions	Disposals	Balance 31 Dec 2007	Additions	Disposals	Balance 31 Dec 2008
Buildings	12,363,464	518,818	151,970	12,730,312	500,380	4,174,024	9,056,668
Individual movable assets	35,809,100	2,932,948	2,204,125	36,537,923	3,578,597	6,888,940	33,227,580
- Machinery, equipment, and furniture and fixtures	5,329,098	323,775	528,951	5,123,922	358,062	2,825,700	2,656,284
- Vehicles	30,235,815	2,522,727	1,655,707	31,102,835	3,195,146	3,890,393	30,407,588
- Other	244,189	86,444	19,467	311,166	25,389	172,847	163,708
Other assets	402	0	0	402	0	218	184
Tangible assets under construction	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0
Valuation difference	584	584	0	1,168	584	0	1,752
Total	48,173,550	3,452,350	2,356,095	49,269,805	4,079,561	11,063,182	42,286,184

(CZK '000)							
Provisions	Balance at 1 Jan 2007	Additions	Disposals	Balance 31 Dec 2007	Additions	Disposals	Balance 31 Dec 2008
Land	3,277	6,555	6,555	3,277	8,473	5,875	5,875
Buildings	70,702	72,009	78,659	64,052	54,490	64,453	54,089
Individual movable assets	304,472	330,505	308,478	326,499	1,687,125	328,165	1,685,459
- Machinery, equipment, and furniture and fixtures	2,897	1,889	2,887	1,899	1,929	1,899	1,929
- Vehicles	301,575	328,616	305,591	324,600	1,685,196	326,266	1,683,530
- 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	378,451	409,069	393,692	393,828	1,750,088	398,493	1,745,423

(CZK '000)			
Net book value	Balance at 1 Jan 2007	Balance 31 Dec 2007	Balance 31 Dec 2008
Land	7,213,116	7,182,237	6,566,063
Buildings	12,051,833	12,377,369	11,151,330
Individual movable assets	21,611,954	23,687,457	24,991,021
- Machinery, equipment, and furniture and fixtures	1,579,030	1,407,080	1,115,441
- Vehicles	19,987,345	22,279,566	23,838,415
- Other	45,577	811	37,165
Other assets	4,140	4,127	4,054
Tangible assets under construction	818,014	1,805,351	821,393
Prepayments	1,645,174	1,000,507	2,065,470
Valuation difference	7,737	7,153	6,569
Total	43,351,968	46,064,201	45,605,900

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 Parent 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 Group has identified asset components, where there is significant uncertainty regarding their future utilisation. These assets have been provisioned as equal to the difference between the net book value and the estimated fair value (typically the net proceeds of the sale or disposal of the relevant asset). In the year ended 31 December 2008, the Company recognised a provision against the product of the 680 series tilting trains (Pendolino) in the amount of CZK 1,433,000 thousand.

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 1,666,000 thousand and the 380 series electric three-system locomotives in the amount of CZK 87,572 thousand.

Principal additions to tangible assets include the improvements on 680 series electric locomotives of CZK 190,668 thousand, inclusion of 471 series electric locomotives in the amount of CZK 1,624,322 thousand and inclusion of 814 series electric locomotives in the amount of CZK 673,840 thousand. Other significant additions to tangible assets include the start-up of the washer for rail vehicles in the amount of CZK 75,366 thousand.

During the year ended 31 December 2008, the volume of tangible fixed assets significantly decreased due to the sale of the business part. Disposals of tangible fixed assets at net book values as of 1 July 2008 amounted to CZK 3,271,415 thousand (refer to Note 1.6.) of which land of CZK 517,969 thousand, buildings of CZK 2,014,436 thousand, machinery and equipment of CZK 383,018 thousand, vehicles of CZK 342,660 thousand and other tangible fixed assets of CZK 6,036 thousand and tangible fixed assets under construction of CZK 7,296 thousand.

► 5.2.1. Pledged Assets

The Parent Company holds assets that were pledged as security – electrical train sets of class 471 at an acquisition cost of CZK 1,236,140 thousand. Pledged assets collateralise part of loans provided by Eurofima.

► 5.2.2. 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 2008 was CZK 1,980 million (31 December 2007: CZK 1,932 million). 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.

► 5.2.3. Investment Grants

Investment grants received in the year ended 31 December 2008 amounted to CZK 661,882 thousand (31 December 2007: CZK 526,635 thousand), of which the grants from the State Fund of Transport Infrastructure amounted to CZK 240,731 thousand in the year ended 31 December 2008 (31 December 2007: CZK 129,130 thousand).

► 5.2.4. Assets Held under Finance Leases

	Date of inception	Term in months	Total lease value	Payments made in 2007	Payments made in 2008	Due in 2009	Due in the following years
AU analyser	06/2003	36	2,095	2,095	2095	0	0
854 series motor vehicles	01/2006	126	313,511	44,083	75,451	31,465	206,595
WLABmz sleeping cars	03/2007	120	956,061	71,705	167,311	95,606	693,144
28 modernised rail vehicles	12/2007	132	867,556	0	0	86,756	780,800
Wagons: Sgnss	12/2006	123	441,505	31,370	75,133	44,409	321,963
753.751-7	12/2008	120	45,320	0	378	4,910	40,032
753.752-5	12/2008	120	43,432	0	362	4,343	38,727
Tadnss/Tadgnss	4/2006	96	294,719	53,771	91,484	37,680	165,555
Zacns	4/2006	96	81,276	16,370	27,170	10,440	43,666
Habbilnss	12/2005	96	866,711	189,982	305,580	11,600	549,531
Sggmrww	10/2005	96	145,613	41,677	60,757	19,080	65,776
Sggmrss 90´	12/2007	60	301,566	251	44,179	60,313	197,074
Sggrss 80´	7/2008	60	709,065	0	19,228	110,704	579,133
709 series locomotives	12/2006	120	58,940	5,894	11,788	5,934	42,218
Technology units	8/2005	48	10,845	6,552	9,263	1,582	0
Technology units	11/2006	60	13,606	3,175	5,896	2,721	4,989
Technology units	12/2006	48	11,454	3,107	5,971	2,864	2,619
Technology units	12/2006	36	463	208	341	122	0
Technology units	7/2007	36	11,689	1,948	5,845	3,896	1,948
Technology units	1/2005	60	72,923	42,882	57,318	14,442	1,159
Car	10/2006	48	771	240	433	193	145
Car	8/2004	36	929	929	929	0	0
Car	11/2004	60 ^{*)}	1109 ^{**)}	657	947	162	0
Car	11/2005	48	632	305	463	158	11
Car	12/2005	36	566	365	566	0	0
SSP 2008 SW rail plough	4/2008	60	26,423	0	3,523	5,284	17,616
Rail dynamic stabiliser	4/2008	60	36,758	0	4,901	7,351	24,506
Total			5,315,538	517,566	977,312	557,105	3,415,212

^{*)} Change in the lease contract to 60 months.

^{**)} Extension of the lease period = increase in the total lease value
Increase in the total value – change in the interest rate

Assets held under finance leases are not included in the assets reported in the consolidated balance sheet. The above figures are net of VAT and include a commission to the leasing company. Only the leases of cars, where VAT cannot be deducted, include the VAT amount.

► 5.2.5. Gains and Losses Arising from the Sales Inventory and Fixed Assets among Consolidation Group Entities

The most significant sales between entities in the consolidation group were between the Parent Company and ČD Cargo where the profit of the Parent Company from the sale of oil and spare parts amounted to CZK 68,399 thousand, the profit from the sale of locomotives and rail vehicles amounted to CZK 35,284 thousand and the profit from the sale of land amounted to CZK 5,171 thousand. In the year ended 31 December 2007, the profit from the sale of wagons amounted to CZK 151,130 thousand. The profit of the subsidiary ČD Cargo for the sale of locomotives to the Parent Company amounted to CZK 19,141 thousand in the year ended 31 December 2008. Other significant sales were between the Parent Company and ČD – Telematika where the profit of the subsidiary from these sales amounted to CZK 9,304 thousand and CZK 18,260 thousand in the years ended 31 December 2008 and 2007, respectively.

The profit of the Parent Company from the sale of the land and buildings to the subsidiary TSS amounted to CZK 22,817 thousand in the year ended 31 December 2008 and the profit from the sale of the material to the subsidiary DPOV amounted to CZK 10,474 thousand in the year ended 31 December 2008. With respect to sales between DPOV and ČD Cargo, the profit of DPOV from the renovation of locomotives and rail vehicles amounted to CZK 35,569 thousand in the year ended 31 December 2008. Other mutual sales were immaterial. ČD-Telematika is the supplier of its proprietary software to the Parent Company which is treated as an expense of the Group for consolidation purposes.

All profits and losses from the sales between entities in the consolidation group referred to above were eliminated upon consolidation.

► 5.3. Non-Current Financial Assets

► 5.3.1. Equity Investments in Subsidiaries

AS OF 31 DECEMBER 2008							(CZK '000)	
Entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2008	Revaluation at 31 Dec 2008	
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-5,658	51	46,260	*)	23,592	
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66	-140	-442	0	
ČD Reality a. s.	Prague 6, Václavkova 169/1	1,020	2,873	51	7,633	-1,336	3,893	
Dopravní vzdělávací institut, a. s.	Prague 1, Hybernská 1014/13	3,200	5,418	100	8,618	2,983	8,618	
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51	-3,387	-1,779	0	
ČD travel, s.r.o.	Prague 1, Hybernská 1034	7,500	595	51,72	15,657	916	8,095	
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-42	51	1,917	-61	978	
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-162	51	1,683	-242	858	
Generálne zastúpenie ČD Cargo, s.r.o.	Bratislava, Prievozská 4/B	169	2,115	100	2,285	2,106	2,284	
ČD Generalvertretung GmbH	Frankfurt am/M, Kaiserstrasse 60	1,375	8,880	100	10,255	5,117	10,255	
Koleje Czeskie Sp. Z o.o.	Warszawa, Wspólna 35/5	749	2,535	100	3,284	1,670	3,284	
ČD-Generalvertretung Wien GmbH	Wien, Rotenturmstrasse 22/24	1,126	5,261	100	6,387	3,935	6,387	
Terminál Brno, a.s.	Brno, K Terminálu 614/11	1,210	3	61	2,005	5	1,213	
RAILLEX, a. s.	Prague 1, Hybernská 1014/13	1,000	-1,000	50	-11,348	-13,306	0	
ČD Trans s.r.o.	Brest, K.Marxe 19, Bělorusko	756	127	51	1,731	-205	883	
ČD-DUSS Terminál, a. s.	Losovice, Lukavecká 1189	2,040	2,096	51	8,109	2,965	4,136	
CDT International s.r.o.	Prague 3, Pernerova2819/a	4,000	-176	24	9,561	-17	3,824	
Total		57,115	21,185				78,300	

*) the information was not presented

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS ČD, a.s.

AS OF 31 DECEMBER 2007

(CZK '000)

Entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2007	Revaluation at 31 Dec 2007
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-9,938	51	37,867	5,386	19,312
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66	-1,157	-1,983	0
ČD Reality a. s.	Prague 1, Hybernská 1034/5	1,020	3,554	51	8,969	398	4,574
Dopravní vzdělávací institut, a. s.	Prague 1, Hybernská 1014/13	3,200	2,809	100	6,009	373	6,009
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51	-1,609	-1,690	0
ČD travel, s.r.o.	Prague 1, Hybernská 1034	7,500	121	51,72	14,741	503	7,621
ČD-Generalvertretung Wien GmbH	Wien, Rotenturmstrasse 22/24	1,293	2,637	100	3,930	2,025	3,930
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	0	51	2,000	-22	1,020
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-38	51	1,925	-75	982
Trade CDT s.r.o.	Prague 3, Pernerova 2819/2a	500	-421	59,31	78	257	79
ČD Generalvertretung GmbH*	SRN, Frankfurt am/M	1,592	-1,470	100	122	-3,931	122
Koleje Czeskie Sp. Z o.o.	Hoza 63/67, Warszawa,	761	0	100	2,030	1,534	761
RAILLEX, a. s.	Prague 5, Trnkovo nám. 3	1,020	-15	51	1,970	-30	1,005
ČD-DUSS Terminál, a. s.	Lovosice, Lukavecká 1189	2,040	0	51	5,144	1,144	2,040
Total		51,896	-4,441				47,455

The equity investment in RAILREKLAM, spol. s r.o. was made on the basis of a Founding Deed dated 21 February 1991. On the basis of an agreement dated 28 December 2000, a 50 percent equity investment held by Österreichisches Verkehrsbüro AG was transferred to the Company for CZK 29 million. As such, the Company became the sole owner of RAILREKLAM, spol. s r.o. On 6 February 2004, RAILREKLAM, spol. s r.o. increased its share capital to CZK 13.5 million. On 6 April 2007, a contract for the investment of TARDUS, s.r.o. in RAILREKLAM was concluded. This investment decreased the equity investment of the Company from 100 percent to 51 percent. The increase in the capital was recorded in the Register of Companies on 2 June 2007. RAILREKLAM, spol. s r.o. is engaged in advertising activities specifically related to railway transportation.

RailReal a.s. was incorporated following its registration in the Register of Companies on 6 December 2000. The Company acquired the shares of RailReal a.s. on the basis of deeds of donation dated 20 December 2000. The entity is principally engaged in undertaking projection and engineering activities in investment construction.

ČD Reality a.s. was incorporated following registration in the Register of Companies on 16 November 2004. The entity is engaged in investment construction engineering activities, preparation and implementation of revitalisation projects and other related activities.

Dopravní vzdělávací institut, a.s., registered in the Register of Companies on 21 September 2005, principal activities: organisation of courses, educational events and training activities, including tutoring activities, and language courses.

Smíchov Station Development, a.s., registered in the Register of Companies on 1 June 2005, principal activities: design, renovation, modernisation and development of the Smíchovské nádraží locality.

ČD travel, s. r. o., registered in the Register of Companies on 1 August 2005, principal activities: travel agency and provision of related services. On

10 October 2006, České dráhy, a.s., as the sole owner of ČD travel, s. r. o. approved the increase in the share capital of the company of CZK 7 million through a cash contribution by OSŽ which became the new owner of ČD travel, s. r. o. The transaction was recorded in the Register of Companies on 8 March 2007. As of that date, the equity investment of České dráhy a.s. in ČD travel decreased to 51.7 percent.

ČD Generalvertretung GmbH was incorporated following registration in the Register of Companies on 11 October 2004. The entity is engaged in the representation of the Company in its business and other interests abroad, predominantly conclusion and mediation of contracts relating to freight transport. The share was invested in the subsidiary ČD Cargo, a.s. which was formed on 1 December 2007.

RAILLEX, a. s., registered in the Register of Companies on 17 June 2006, principal activities – storage of goods and freight handling. The equity interest in the company was invested in the subsidiary ČD Cargo, a.s. which was formed on 1 December 2007. In the year ended 31 December 2008, the 49 percent equity investment was purchased for CZK 980 thousand and the 50 percent equity investment was sold to CHB Logistic for CZK 1,000 thousand.

Koleje Czeskie Sp. Z o.o., registered in the Register of Companies on 18 December 2006. The entity is engaged in the representation of business and other interests of ČD, a.s. abroad, predominantly conclusion and mediation of contracts relating to freight transport. The equity interest in the company was invested in the subsidiary ČD Cargo, a.s. which was formed on 1 December 2007.

ČD-DUSS Terminál, a. s., registered in the Register of Companies on 1 March 2007. The entity is engaged in the operation of container terminals including related services. The equity investment of České dráhy, a. s. of 51 percent was invested in the subsidiary ČD Cargo, a. s.

CD – Generalvertretung Wien GmbH was formed on 30 March 2007 in Austria through the investment of České dráhy, a.s. in the amount of EUR 45 thousand. The entity is engaged in business representation. On 22 January 2008, České dráhy, a.s. sold the entity to its subsidiary ČD Cargo, a. s.

Centrum Holešovice a. s., registered in the Register of Companies on 2 May 2007. The entity is engaged in the preparation of the project for the revitalisation of the train station area in Holešovice. The equity investment of České dráhy is 51 percent.

Žižkov Station Development, a. s., registered in the Register of Companies on 14 December 2007. The equity investment of České dráhy, a. s. amounts to 51 percent. The entity is engaged in the lease of real estate – apartments and non-residential premises.

In the year ended 31 December 2008, the following new subsidiaries were formed:

Terminal Brno, a.s., registered in the Register of Companies on 25 July 2008. The equity investment of ČD Cargo amounts to 60.5 percent. Principal activities include the storage of goods and cargo handling, technical activities in transport, real estate activities and administration and maintenance of real estate.

Generálne zastúpenie ČD Cargo, s.r.o., registered in the Register of Companies in Slovakia on 24 September 2008. The equity investment of ČD Cargo amounts to 100 percent. Principal activities include business representation and mediation activities in transportation and services.

ČD Trans s.r.o., registered in the Register of Companies in Belarus on 23 April 2008. The equity investment of ČD Cargo is 51 percent. Principal activities include transportation and transfer of cargo, including the provision of services in the Brest terminal.

Trade CDT s.r.o. formed on 9 November 2005, wholly owned by ČD–Telematika a.s. as of 31 December 2007, was renamed to CDT International s.r.o. on 28 January 2008. ČD–Telematika a.s. increased its equity investment in this entity by CZK 3,500 thousand in 2008. As there are other owners, ČD–Telematika a.s. holds a 40 percent equity investment. Principal activities include the provision of software and advisory in hardware and software, advertising and marketing and mediation of business and services.

► 5.3.2. Equity Investments in Associates

AS OF 31 DECEMBER 2008							(CZK '000)	
Business name	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2008	Valuation at 31 Dec 2008	
CR-City a. s.	Prague 3, Olšanská 1a	680	-310	34	1,087	*)	370	
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34	-5,615	*)	0	
CR office a. s.	Prague 3, Olšanská 2643/1a	680	-158	34	1,535	*)	522	
RS hotel a. s.	Prague 3, Olšanská 2643/1a	680	-128	34	1,574	*)	552	
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	52,611	34	154,940,	87,629	52,679	
WHITEWATER a. s.	Prague 3, Olšanská 2643/1a	680	-172	34	1,494	*)	508	
ČD Restaurant, a. s.	Prague 3, Prvního pluku 81/2a	4,000	2,846	20	17,116	*)	6,846	
ČD Logistics, a. s.	Prague 10, K Hrušovu 293/2	3,400	668	34	11,965	3,096	4,068	
Ostravská dopravní společnost, a. s.	Ostrava, Přívoz, U Tiskárny 616/9	7,000	9,854	20	84,270	42,433	16,854	
BOHEMIACOMBI, spol. s r.o.	Prague 1, Opletalova 6	7,022	-2,073	30	16,495	-2,206	4,949	
XT – CARD a. s.	Prague 8, Sokolovská 100/94	6,800	1,341	20	23,943	1,096	8,141	
Total		31,690	63,799				95,489	

*) The information was not presented

AS OF 31 DECEMBER 2007								(CZK '000)
Business name	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2007	Valuation at 31 Dec 2007	
CR-City a. s.	Prague 3, Olšanská 1a	680	-188	34	1,448	-490	492	
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34	-3,085	-2,853	0	
CR office a. s.	Prague 3, Olšanská 2643/1a	680	-124	34	1,634	-102	556	
ČD Logistic, a. s.	Prague 10, K Hrušovu 293/2	3,400	-375	34	8,896	-1,104	3,025	
RS hotel a. s.	Prague 3, Olšanská 2643/1a	680	-116	34	1,659	-116	564	
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	22,817	34	67,310,	1,390	22,885	
WHITEWATER a. s.	Prague 3, Olšanská 2643/1a	680	-132	34	1,611	-181	548	
ČD Restaurant, a. s.	Prague 6, Václavkova 169/1	4,000	-657	20	16,713	-3,287	3,343	
Ostravská dopravní společnost, a. s.	Ostrava, Přívoz, U Tiskárny 616/9	7,000	3,528	20	52,646	17,645	10,528	
XT – CARD a. s.	Prague 8, Sokolovská 100/94	4,000	1,138	23.72	12,847	576	5,138	
BOHEMIACOMBI, spol. s r.o.	Prague 1, Opletalova 6	822	3,700	20	22,612	-5,796	4,522	
Total		22,690	28,911				51,601	

► 5.3.3. Other Non-Current Equity Investments and Securities

(CZK '000)		
Type of security and investment	Valuation at 31 Dec 2008	Valuation at 31 Dec 2007
PraK, a. s.	850	850
STROJEXPORT, a. s.	58	2,300
Hit Rail B.V.	4,017	4,017
EUROFIMA	262,873	262,873
INTERCONTAINER-INTERFRIGO, o.s.	5,189	5,189
INTERNATIONALE SPEDITION Děčín, a. s.	8	8
Total	272,995	275,237

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

► 5.4. Receivables from Partners and Association Members

ČD Cargo, a.s. provided a loan to the related entity Railex, a.s. The aggregate loan of CZK 24,000 thousand includes the short-term receivable of CZK 4,800 thousand and the long-term receivable of CZK 19,200 thousand.

Entity	Relation to the Company	Interest rate	Collateral	Maturity date	Currency	Nominal value	Net book value
Railex, a.s.	Associate	1 M Pribor + 3% p.a.		20 Dec 2013	CZK	24,000	24,000
Total						24,000	24,000

► 5.5. Inventory

	(CZK '000)	
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Spare parts for machinery and equipment	360,628	312,631
Spare parts and other components for rail vehicles and locomotives	723,976	646,577
Other spare parts and other minor components	256,243	192,628
Fuels and other oil products	32,108	33,582
Switches, turntables, traverse tables and components for rail superstructures	73	129,345
Work in progress	124,395	101,734
Prepayments for inventory	4,254	13,667
Other	399,331	397,141
Total cost	1,901,008	1,827,305
Provisions	27,881	28,796
Total net book value	1,873,127	1,798,509

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

► 5.6. Short-Term Receivables

5.6.1. Trade Receivables

(CZK '000)									
Year	Category	Before due date	Past due (in days)					Total	Total
			0 - 90	91 - 180	181 - 365	366-730	731 and greater		
2008	Gross	2,852,757	219,953	54,668	75,966	17,708	55,556	423,851	3,276,608
	Provisions	0	26	5,512	47,571	12,887	54,502	120,498	120,498
	Net	2,852,757	219,927	49,156	28,395	4,821	1,054	303,353	3,156,110
2007	Gross	3,197,953	562,573	32,146	52,208	46,744	84,684	778,355	3,976,308
	Provisions	0	53	888	24,675	15,995	77,425	119,036	119,036
	Net	3,197,953	562,520	31,258	27,533	30,749	7,259	659,319	3,857,272

Receivables past their due dates by more than 181 days which are not provided for are receivables of ČD Cargo, a.s. from foreign railways which are not treated as bad receivables.

► 5.6.2. Tax Receivables

Tax receivables largely consisted of receivables arising from VAT.

► 5.6.3. Prepayments Made

Short-term prepayments made largely consisted of prepayments made for the supply of services (electricity, heat, lease of fibres etc).

► 5.7. Estimated Receivables

(CZK '000)		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Cross-border rentals for passenger coaches	479,297	480,142
Cross-border rentals for freight wagons	157,520	238,243
Income from international transportation	386,792	363,345
Other	345,745	88,749
Total estimated receivables	1,369,354	1,170,479

Cross-border rentals are billed retroactively for 12 months (passenger transportation) and two months (freight transportation). Other estimated receivables include the estimate of damages for the accident in Studénka of CZK 55.5 million.

Income from international passenger transportation represents an amount due from the transportation services provided as of 31 December 2008 which were not billed to the foreign railway organisations and an amount receivable arising from unsettled operating output in border regions in respect of the neighbouring railway organisations.

► 5.8. Equity

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.

Information about the substance of individual equity components is presented in Note 4.7 to the consolidated financial statements.

Losses from revaluation of assets and liabilities amounted to CZK (958,254) thousand which predominantly included the revaluation of hedging derivatives to their fair value.

Movements in Gains or losses from revaluation of assets and liabilities:

	(CZK '000)
Balance at 1 Dec 2007	22,138
Valuation of derivatives hedging future cash flows	-1,295,784
Change in the valuation of the asset part using the equity method	65,061
Change in the deferred tax from financial derivatives	250,331
Balance at 31 Dec 2008	-958,254

The consolidated loss of the previous reporting period of CZK 599,534 thousand was allocated to the 2008 consolidated balance sheet as an increase in accumulated losses. Accumulated losses also include the allocation to the statutory reserve fund and the social fund.

The General Meeting of the Parent Company approved the presented proposal for the allocation of the net profit for 2007 in the amount of CZK 59,318 thousand. CZK 11,864 thousand was allocated to the reserve fund, i.e. 20 percent of the net profit of 2007 and CZK 47,454 thousand was allocated to the social fund.

The increase in the statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 319,064 thousand, of which CZK 240,756 thousand is charged against the share premium, CZK 78,308 thousand from retained earnings of 2007. The decrease in funds is due to the drawing of the social fund in the amount of CZK 333,103 thousand.

The share in the profit of the subsidiary JLV under the equity method of accounting amounted to CZK 4,426 thousand and CZK 2,484 thousand in the years ended 31 December 2008 and 2007, respectively, of which the dividends paid out to the Parent Company for 2007 and 2006 amounted to CZK 1,301 thousand and CZK 1,930 thousand in the years ended 31 December 2008 and 2007, respectively.

► 5.9. Reserves

(CZK '000)							
	Balance at 1 Jan 2007	Charge	Use	Balance at 31 Dec 2007	Charge	Use	Balance at 31 Dec 2008
Reserve for discounts and claims	28,155	27,774	51,429	4,500	2,500	4,500	2,500
Reserve for rents	13,906	14,153	13,906	14,153	10,819	14,153	10,819
Reserve for legal disputes	10,107	12,660	10,107	12,660	42,191	21,266	33,585
Reserve for repairs of assets	14,462	25,042	0	39,504	53,732	11,522	81,714
Reserve for outstanding vacation days	46,450	94,531	46,450	94,531	175,896	143,473	126,954
Reserve for bonuses	37,680	33,795	71,475	0	0	0	0
Other reserves	9,707	85,264	9,518	85,453	22,977	69,188	39,242
Total reserves	160,467	293,219	202,885	250,801	308,115	264,102	294,814

Other reserves include, for example, the reserves for discounts (ČD Cargo) in the amount of CZK 17,600 thousand, the reserves for estimated costs relating to outstandings and warranty repairs for the year ended 31 December 2008 in the amount of CZK 11,273 thousand and a reserve for the compensation for work related accidents of CZK 2,220 thousand.

All of the reserves charged in the year ended 31 December 2008 are non-tax deductible except for the reserve for repairs of assets. This reserve is tax deductible.

In the year ended 31 December 2008, the Company changed in policy of accounting for bonuses. In the year ended 31 December 2008 the Company recognised an accounting estimate while it accounted for a reserve in the year ended 31 December 2007.

► 5.10. Long-Term Payables

(CZK '000)		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Payable to EUROFIMA	4,443,396	4,366,226
Long-term prepayments received	297,326	342,743
Deferred tax liability	207,018	496,647
Other long-term payables	1,305,142	631,549
Total long-term payables	6,252,882	5,837,165

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 EUR 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 2008 and 2007 was CZK 31,436 thousand and CZK 41,780 thousand, respectively.

Long-term supplier payables in 2008 predominantly included lease payments of wagons – CZK 1,111,226 thousand and construction investments. In 2007, these payables predominantly included payables to the supplier arising from completed repairs of wagons.

As of 31 December 2008, long-term prepayments received amounted to CZK 297,326 thousand (2007: CZK 342,743 thousand). These prepayments were provided by customers as part of long-term leases of rail vehicles, leases of fibres and prepayments for shipment services in freight transportation.

► 5.11. Short-Term Payables

► 5.11.1. Trade Payables

(CZK '000)									
Year	Category	Before due date	Past due (in days)					Total	Total
			0 – 90	91 - 180	181 – 365	365-730	731 and greater		
2008	Short-term	5,486,004	638,969	87,684	31,119	5,234	13,914	776,920	6,262,924
2007	Short-term	5,339,661	1,192,007	2,660	3,840	13,262	218	1,212,042	6,551,703

► 5.11.2. Payables and Subsidies

As of 31 December 2008, tax payables were largely composed of personal income taxation deducted from the gross wages of the Company's employees, VAT in accordance with the VAT tax return for December 2008, an additional payment of road tax for 2008 and the unused portion of EU grants received by the Parent Company in the amount of CZK 7,471 thousand as of 31 December 2008 (as of 31 Dec 2007: CZK 6,860 thousand).

The Group records no past due payables to taxation authorities, social security institutions and health insurers.

► 5.11.3. Prepayments Received

As of 31 December 2008, short-term prepayments received amount to CZK 269,958 thousand (2007: CZK 203,161 thousand) and were largely composed of rent prepayments.

► 5.12. Estimated Payables

(CZK '000)		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Rental for passenger coaches of foreign companies in the Czech Republic	465,596	409,214
Rental for freight wagons of foreign companies in the Czech Republic	59,182	103,672
Costs of international transportation	111,336	128,854
Other	857,332	611,805
Total estimated payables	1,493,446	1,253,545

Rentals for passenger coaches of foreign companies in the Czech Republic are billed retroactively for 12 months (passenger transportation). These costs represent a payable of the Parent Company from the international passenger transportation arising from unbilled operating output by foreign railway organisations. Rentals of wagons of foreign companies in the Czech Republic are billed retroactively for two months.

Costs of international passenger transportation represent an amount payable arising from unsettled operating output in border regions in respect of the neighbouring railway organisations.

Other estimated payables include unbilled supplies in telecommunication, investments, costs relating to accidents and similar costs.

► 5.13. Bank Loans

> Long-term Bank Loans

(CZK '000)					
Bank	Currency	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Interest rate	Collateral form
ČSOB	EUR	1,379,800	1,636,700	3M EURIBOR + 0,5	State guarantee
ČSOB leasing	CZK	22,197	0	5,42 %	Financed assets
Total		1,401,997	1,636,700		

The Parent Company entered into a loan agreement with a consortium of banks led by Československá obchodní banka, a.s. Other members of the consortium include Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Česká spořitelna, a.s. and Deutsche Bank Filiale Prag, org. složka. The loan has been provided to finance the renovation of the 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 2008, EUR 30,581 thousand was repaid from the aggregate loan facility and the principal of EUR 61,484 thousand remains to be repaid between 2009 and 2014. The final maturity date of the loan is 25 November 2014.

In the year ended 31 December 2008, the subsidiary ČD-Telematika a.s. concluded a long-term loan for the financing of the purchase of software licences. The provider of the loan is ČSOB leasing.

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

> Short-Term Bank Loans and Short-Term Financial Borrowings

(CZK '000)					
Bank	Currency	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Interest rate	Form of collateral
ČSOB	EUR	275,960	272,784	3M EURIBOR+0,5	State guarantee
ČSOB	CZK	627,111	295,429	O/N Pribor+0,7 p.a.	No collateral
ČSOB	CZK	632,883	329,065	O/N Pribor+0,7 p.a.	No collateral
KB	CZK	371,694	247,410	O/N Pribor+0,5 p.a.	No collateral
ČSOB leasing	CZK	8,656	0	5,42 %	Financed assets
KB	CZK	0	96,500	*)	Receivables
KB	CZK	17,070	118,279	*)	Receivables
Total		1,933,374	1,359,467		

*) the information was not provided

As of 31 December 2008, the portion of long-term bank loans maturing within one year from the consolidated balance sheet date is reported as a short-term bank loan and totals CZK 284,616 thousand. Other short-term bank loans of the Group include the drawing of overdraft loans.

The amount of capitalised interest and relating fees on the long-term banking loan from ČSOB for the year ended 31 December 2008 was CZK 54,559 thousand, of which interest and fees amounted to CZK 52,626 thousand and CZK 1,933 thousand, respectively. 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. The amount of capitalised interest and relating fees on the loan from ČSOB for the year ended 31 December 2007 was CZK 99,615 thousand.

► 5.14. Derivative Financial Instruments

(CZK '000)			
31 Dec 2008			
	Positive fair value	Negative fair value	Total
Hedging derivatives	0	0	0
Derivatives hedging the fair value	0	32,000	-32,000
Derivatives hedging cash flows	83,485	1,379,269	-1,295,784
Total	83,485	1,411,269	-1,327,784

Following the strengthening of the Czech crown, the Company used currency option strategies – a combination of purchased put options and sold call options in 2008 to hedge foreign exchange rate gains and losses.

The aggregate monthly volume of put options is EUR 15,660,000

The aggregate monthly volume of call options amounts to EUR 12,250,000

Hedging is concluded with reputable banks.

The hedging was concluded for the period of 39 calendar months until December 2011.

To hedge the oil price pursuant to the assumption of the increase in its price in the mid-term, the Company uses the zero cost collar strategy in the monthly amount of 1,262 mt concluded with reputable banks.

This is a hedging strategy which allows ČD Cargo, a.s. to hedge the maximum price of the oil while maintaining a limited possibility to participate in the decrease in the price. There is a determined range defined by the cap and floor price.

This strategy was concluded for the period of 36 calendar months until December 2011.

In this case, the hedged item is part of the planned consumption of traction oil, specifically first purchases of oil in the particular month.

Changes in fair values of derivatives which are classified as cash flow hedges are recognised in equity and are reported through gains and losses from the revaluation of assets and liabilities in the balance sheet.

► 5.15. Income Taxes

► 5.15.1. Tax Payable

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

BALANCE AT 31 DEC 2008	(CZK '000)
Profit before tax	2,449,483
Income tax rate	21%
Tax at the domestic income tax rate	514,391
Tax effect of expenses/income that are not allowable in determining taxable profit	837,563
Deferred tax	-40,595
Utilisation of the tax loss	-1,159,231
Other	-1,125
Total income tax on ordinary and extraordinary activities	151,003

The effective tax rate in the year ended 31 December 2008 is 6.2 percent.

The Parent Company had been reporting tax losses from its incorporation on 1 January 2003 to 31 December 2007. The tax loss amounted to CZK 800,927 thousand, CZK 2,175,107 thousand, CZK 2,793,616 thousand and CZK 2,878,475 thousand for the years ended 31 December 2007, 2006, 2005 and 2004, respectively (changes in the tax loss for 2004, 2005 and 2006 as compared to the disclosures provided in the notes to the consolidated financial statements for individual years were due to additional tax returns filed during the following years). The difference between the accounting loss and the tax base was predominantly due to the difference between depreciation for accounting and tax purposes.

The tax payable for 2008 reported by the Group is the income tax of subsidiaries as standalone legal entities.

► 5.15.2. Deferred Taxation

The Group has determined deferred tax as follows:

	(CZK '000)	
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Tangible and intangible fixed assets	-563,771	-232,437
Provisions against fixed assets	319,446	0
Trade receivables	12,297	7,726
Inventory	1,162	2,564
Reserves	25,232	24,927
Unpaid contractual penalties made	-2,560	-20,944
Unpaid supplier contractual penalties	1,478	3,127
Revaluation of financial investments	0	0
Accumulated tax loss	859,971	1,960,375
Deferred tax from consolidation adjustments	46,220	61,965
Deferred tax asset - unrecognised	699,475	1,807,303
Tangible and intangible fixed assets	-576,704	-526,821
Trade receivables	919	0
Inventory	4,422	3,008
Reserves	15,791	18,890
Deferred tax on financial derivatives	256,731	0
Other	-3,229	549
Deferred tax from consolidation adjustments	95,052	7,727
Deferred tax liability (-) asset (+) - recognised	-207,018	-496,647
Total deferred tax asset	492,457	1,310,656

Analysis of movements

	(CZK '000)
1 Jan 2008	-496,647
Current changes charged to the profit and loss account	40,595
Total charges against the profit and loss account	40,595
Change in the deferred tax on financial derivatives recognised in equity	250,331
Other changes recognised in equity	-1,297
Total recognised in equity	249,034
31 Dec 2008	-207,018

The aggregate deferred tax amount is predominantly impacted by the Parent Company. The Parent 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. The recognised deferred taxation predominantly relates to assets and liabilities of the subsidiaries.

► 5.16. Accrued Expenses and Deferred Income

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

Deferred income predominantly includes rental income from rental income from the gas station leased to OMV, which was prepaid for 20 years, and the lease of optical cables prepaid until 2023.

► 5.17. Income from the Sale of Products and Services

(CZK '000)						
	Year ended 31 December 2008			Year ended 31 December 2007		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income from freight transportation	12,882,315	3,980,577	16,862,892	7,017,269	10,581,343	17,598,612
Income from passenger transportation	4,468,436	1,759,281	6,227,717	4,456,674	1,811,336	6,268,010
Income from other transportation	12,488	0	12,488	53,523	0	53,523
Income from securing railway routes	8,686,536	0	8,686,536	11,382,453	0	11,382,453
Income from other services	2,685,718	210,835	2,896,553	2,623,404	221,431	2,844,835
Total income from the sale of the Company's products and services	28,735,493	5,950,693	34,686,186	25,533,323	12,614,110	38,147,433

Cross-border sales include the income from the international transportation and income from the cross-border rent of coaches and wagons.

Income from securing railway routes principally represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 5,534,923 thousand (2007: CZK 4,720,292 thousand) and operability of CZK 3,151,614 thousand (2007: CZK 6,662,161 thousand). A description of the transactions between the Company and SŽDC is provided in Note 8.2.

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

► 5.18. Consumed Purchases

(CZK '000)		
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Consumed material	3,029,020	2,790,176
Consumed energy	3,366,040	3,062,166
Consumption of fuels	2,375,432	2,287,167
Total consumed purchases	8,770,492	8,139,509

► 5.19. Services

	(CZK '000)	
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Repairs and maintenance	3,278,110	4,114,204
Travel expenses	228,999	261,611
Telecommunication, data and postal services	738,173	738,890
Other rental	154,141	148,521
Use of railway routes, management of operations	5,936,291	6,139,042
Rent for railway coaches and wagons	1,297,699	1,140,377
Freight charges	516,548	442,629
Services of dining and sleeping carriages	155,069	160,077
Services associated with the use of buildings	246,215	284,105
Cleaning of coaches and wagons	350,554	339,553
Leases	478,781	359,011
Cross-border outputs	445,953	389,926
Costs of advertising and promotion	467,966	108,337
Other services	1,810,326	592,405
Total	16,104,825	15,218,688

Other services predominantly include expenses related to environmental issues, education, and similar charges.

> Audit Services

The costs of the statutory audit of all companies in the consolidation group:

	(CZK '000)	
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Obligatory audit of the financial statements	9,682	10,709
Tax advisory	2,400	3,682
Other non-audit services	11,853	9,667
Total	23,935	24,058

► 5.20. Change in Reserves and Provisions Relating to Operating Activities

	(CZK '000)	
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Change in reserves	-13,535	90,334
Change in provisions against receivables	-12,565	-14,351
Change in provisions against tangible fixed assets	1,450,385	15,377
Change in provisions against intangible fixed assets	164	0
Change in provisions against inventory	-322	205
Total change in reserves and provisions relating to operating activities	1,424,127	91,565

► 5.21. Other Operating Income

	(CZK '000)	
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Settlement of losses from passenger transportation from the State budget including the subsidy for student fare	4,033,518	3,491,006
Settlement of losses from passenger transportation from the regional budgets including the subsidy for student fare	4,870,668	4,670,185
Other subsidies	406,695	454,843
Recoveries of receivables written off and transferred	279	86
Contractual penalties and default interest	53,107	35,473
Compensation for deficits and damage	202,964	140,586
Acquisition of material	158,688	282,218
Sundry operating income	599,501	542,216
Total other operating income	10,325,420	9,616,613

► 5.22. Other Operating Expenses

	(CZK '000)	
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Contractual penalties and default interest	11,221	16,965
Write-offs of receivables and transferred receivables	108,081	7,053
Deficits and damage relating to operating activities	61,453	46,220
Insurance	209,418	181,932
Employee uniforms and lump sum payments	106,300	124,905
Compensation for asset damage and impaired health	36,854	38,620
Membership allowances	12,253	14,899
Sundry operating charges	488,552	79,724
Total other operating expenses	1,034,132	510,318

► 5.23. Other Financial Income and Expenses

Other financial income and expenses largely include foreign exchange rate gains and losses, and interest on the loans after bringing tangible fixed assets into operation and interest on the loan from EUROFIMA.

► 5.24. Extraordinary Income and Expenses

Extraordinary income and expenses relate to the sale of the business part which was made pursuant to the contract between České dráhy, a.s. and Správa železniční dopravní cesty, s.o. As of 1 July 2008, 18 business units and a part of the section of the Company's CEO were spun-off from the Company and transferred to SŽDC, refer to Note 1.6.

6 Employees, management and statutory bodies

The following table summarises the average recalculated number of the Group's employees and managers for the years ended 31 December 2008 and 2007:

> 2008

(CZK '000)					
	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	48,386	15,349,536	5,144,315	789,615	21,283,466
Management	206	335,871	87,028	14,437	437,336
Total	48,592	15,685,407	5,231,343	804,052	21,720,802

> 2007

(CZK '000)					
	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	56,369	15,731,191	5,308,121	771,186	21,810,498
Management	303	305,791	106,691	16,191	428,673
Total	56,672	16,036,982	5,414,812	787,377	22,239,171

The members of the Parent Company's statutory and supervisory bodies benefited from reduced fares. Cash bonuses for the members of the Group's statutory and supervisory bodies amounted to CZK 19,580 thousand and CZK 10,215 thousand in 2008 and 2007, respectively. Management of the Group is provided with benefits-in-kind taking the form of the use of company cars for private purposes.

7 CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS

On 24 February 2005, the Company entered into a Framework Lease Contract for the financing of the purchase of freight wagons under finance leases in the aggregate amount of CZK 1.2 billion. The Company issued a blank bill with the restrictive clause for the benefit of CitiLeasing, s.r.o. as a collateralising instrument in respect of the lease contracts. With effect from 1 December 2006, ownership rights to the leased assets were transferred from CitiLeasing, s.r.o. to Fortis Lease Czech s.r.o. In compliance with the bill arrangement, the lessor will be entitled to fill out the bill in an amount equal to the amount due from the rent and accrued interest, up to 40 percent of the acquisition cost, net of VAT of the leased assets, in the event that the lease contract is breached.

Given the formation of the subsidiary ČD Cargo, a. s. engaged in freight railway transportation, all rights (receivables) and payables arising from the Framework Lease Contract were transferred from České dráhy, a. s. to ČD Cargo, a. s. with effect from 1 December 2007.

On 9 July 2008, ČD Cargo, a.s. concluded a lease contract for the financing of 30 modernised 753.7 series locomotives with ING Lease (Czech Republic), s.r.o. corporate ID: 25117629, with gradual supply according to the schedule until 31 December 2010 in the form of finance leases in the aggregate amount of CZK 1,004,410 thousand (net of VAT). The lease period was determined to be 10 years (120 even instalments). Each leased asset referred to above is paid based on an individual payment schedule. Five modernised locomotives out of the leased assets referred to above were supplied before 31 December 2008.

The Parent Company ČD a. s. concluded no lease or similar contracts in the year ended 31 December 2008. In this respect, no collateral for liabilities of ČD a. s. was provided.

> Bank Guarantees

Number of guarantee contract	Bank guarantee dated	Bank guarantee in favour of	Amount of the guarantee	Validity until	Note
6812743039081	8 Dec 2008	Czech Republic – Ministry of Transportation	CZK 15,000,000	12 Dec 2009	Bank guarantee for the due implementation of the Contract for the Obligation of Public Service on the Passenger Rail Transportation in the Public Interest to Ensure Transportation Needs of the State between Pardubice – Liberec in the period between 14 December 2008-12 December 2009
6812742039081	8 Dec 2008	Czech Republic – Ministry of Transportation	CZK 15,000,000	12 Dec 2009	Bank guarantee for the due implementation of the Contract for the Obligation of the Public Service in the Passenger Rail Transportation to Ensure Transportation Needs of the State between Plzeň and Most in the Period from 14 December 2008 and 12 December 2009
0202/08/10041	22 April 2008	WestInvest Waterfront Tower s.r.o.	EUR 207,000	28 Feb 2009	Bank guarantee for the compliance with all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
0571/08/10041	23 June 2008	WestInvest Waterfront Tower s.r.o.	EUR 3,780	28 Feb 2009	Bank guarantee for the compliance with all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
0802/08/10041	8 Aug 2008	HYPARKOS, s.r.o.	CZK 14,679,590,28	8 July 2009	Bank guarantee in the event that ČD Cargo does not comply with the obligations stipulated by the Contract for the Lease of Buildings and Land in the Logistics Centre in Lovosice.

8 Other information

► 8.1. Significant Factors Impacting the Group's Operations

The Parent 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 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 is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation.

At the financial statements date, the Company signed contracts for public service commitments for 2009 with the Central Bohemian, Olomouc, South Bohemian, Karlovarský, Ústecký, Liberecký, Pardubický, Vysočina and Zlínský regions. Other regions (Plzeňský, Královehradecký, South Moravian, Morava Silesian regions) provide prepayments of approximately 70 to 100 percent of the actual costs in 2008, the Capital City of Prague makes a prepayment for the beginning of 2009. The objective of the ongoing negotiations with the regional authorities regarding the conclusion of contracts or amendments to the contracts is to unify the contractual commitment of ČD, a.s., set a balanced relation between the transporter and the customer and predominantly establish the obligation to pay the provable losses from the operation of the regional railway transportation.

In addition, the Parent Company seeks to secure the long-term nature of the contract and adjust the existing contracts for the commitment to reflect the changed legal conditions which will result from the implementation of Regulation 1370/2007. The contract for the public service commitment in railway passenger transportation was not concluded for 2009 as of the financial statements date. In January and February 2009, prepayments were provided pursuant to "Resolution of the Transportation Minister No. 247/2008-410-HO/1 dated 8 January 2009". In March and April 2009, prepayments were not provided.

The Parent Company had operated railway routes before 30 June 2008 on the basis of a three year agreement put in place with SŽDC. The contract for operating railway routes was entered into at the end of 2005 for the years 2006-2008. The level of compensation (the Company's income) for operating railway routes was determined by amendments to the contract for each individual year. Since 1 July 2008, the Parent Company has been solely responsible for operating the railway route (operations management on the railway route) according to the conditions of the contract concluded in June 2008.

The Parent Company operates the railway route and it pays the fee to SŽDC for the use of the railways route as any other transporter. The amount of this fee (expense of the Company) is determined by the assessment of the Finance Ministry (as a maximum price) and by the conditions of SŽDC (Railway Route Statement). Since 1 January 2009, the price for the use of the railway route has significantly decreased for both passenger and freight transportation, by almost 20 percent.

► 8.2. Transactions with SŽDC

INCOME AND EXPENSES

> Year Ended 31 December 2008

	(CZK '000)	
	Expenses	Income
Securing railway routes - management of operation	0	5,534,922
Securing railway routes - maintenance of operability	0	3,151,614
Use of railway routes - passenger transport	1,655,843	0
Use of railway routes - freight transport	4,132,682	0
Total	5,788,525	8,686,536

> Year Ended 31 December 2007

	(CZK '000)	
	Expenses	Income
Securing railway routes - management of operation	0	4,720,292
Securing railway routes - maintenance of operability	0	6,662,161
Use of railway routes - passenger transport	1,595,008	0
Use of railway routes - freight transport	4,116,997	0
Total	5,712,005	11,382,453

Income from the securing of railway route is disclosed as sales of products and services in Note 5.16.

The costs of using railway routes are reported as services and are disclosed in Note 5.18.

RECEIVABLES AND PAYABLES

As of 31 December 2008, the Group reported receivables from and payables to SŽDC. The aggregate net value of the balances of these items was CZK 1,227,744 thousand in the year ended 31 December 2008. The payable is reported in 'Trade payables'.

The aggregate net value of balances of these items was CZK 57,233 thousand in the year ended 31 December 2007.

In addition, the Group reported a payable in 2008 arising from unbilled supplies from SŽDC reported as an estimated payable which amounted to CZK 120,008 thousand and CZK 216,377 thousand as of 31 December 2008 and 2007, respectively.

► 8.3. Post Balance Sheet Events

The Parent Company has completed the across-the-board external environmental audit based on which risk analyses were prepared for selected localities. These risk analyses are part of applications for subsidies from EU funds in respect of the removal of legacy environmental liabilities. At present, the results of the full scope environmental audit are being evaluated. For this reason, the aggregate amount of the expenses for the removal of legacy environmental liabilities cannot be reliably determined.

11 Financial statements of ČD, a.s.

Financial statements for the year ended 31 December 2008

Name of the Company: _____ České dráhy, a. s.

Registered Office: — Nábřeží L. Svobody 1222, Prague 1, 110 15

Legal Status: _____ Joint Stock Company

Corporate ID: _____ 70 99 42 26

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► These financial statements were prepared on 26 May 2009

► Statutory body of the reporting entity:



Ing. Petr Žaluda,
Chairman of the Board of Directors and Chief Executive Officer

> Balance sheet as of 31. 12. 2008

▶ AS OF 31. 12. IN CZK THOUSAND				31. 12. 2008	31. 12. 2007
		Gross	Adjustment	Net	Net
TOTAL ASSETS		88,098,044	-31,686,443	56,411,601	56,725,842
B.	Fixed assets	80,093,629	-31,597,388	48,496,241	51,425,942
B.I.	Intangible fixed assets	2,845,508	-2,359,474	486,034	679,151
B.I.2.	Research and development	104,038	-102,427	1,611	93
B.I.3.	Software	713,056	-343,563	369,493	610,187
B.I.4.	Valuable rights	1,943,153	-1,912,724	30,429	
B.I.6.	Other intangible fixed assets	760	-760		99
B.I.7.	Intangible fixed assets under construction	84,501		84,501	68,772
B.II.	Tangible fixed assets	65,707,287	-29,237,914	36,469,373	38,870,639
B.II.1.	Land	6,475,169	-5,875	6,469,294	7,077,809
B.II.2.	Structures	16,669,457	-7,956,464	8,712,993	9,951,415
B.II.3.	Individual movable assets and sets of movable assets	39,831,871	-21,275,391	18,556,480	19,226,263
B.II.6.	Other tangible fixed assets	4,219	-184	4,035	4,108
B.II.7.	Tangible fixed assets under construction	714,261		714,261	1,622,493
B.II.8.	Prepayments for tangible fixed assets	2,012,310		2,012,310	988,551
B.III.	Non-current financial assets	11,540,834		11,540,834	11,876,152
B.III.1.	Equity investments in subsidiaries	11,093,523		11,093,523	11,449,271
B.III.2.	Equity investments in associates	174,316		174,316	151,644
B.III.3.	Other securities and investments	272,995		272,995	275,237
C.	Current assets	7,956,638	-89,055	7,867,583	5,172,041
C.I.	Inventories	1,389,347	-5,959	1,383,388	1,402,994
C.I.1.	Material	1,381,214	-5,959	1,375,255	1,381,175
C.I.2.	Work in progress and semifinished goods	231		231	4,265
C.I.5.	Goods	4,653		4,653	8,354
C.I.6.	Prepayments for inventory	3,249		3,249	9,200
C.II.	Long-term receivables	36,563	-130	36,433	11,818
C.II.1.	Trade receivables				86
C.II.5.	Long-term prepayments made	879		879	1,350
C.II.7.	Other receivables	35,684	-130	35,554	10,382
C.III.	Short-term receivables	2,127,246	-82,966	2,044,280	3,121,060
C.III.1.	Trade receivables	723,968	-79,330	644,638	1,925,088
C.III.6.	State - tax receivables	400,383		400,383	166,149
C.III.7.	Short-term prepayments made	110,699		110,699	267,385
C.III.8.	Estimated receivables	851,673		851,673	705,394
C.III.9.	Other receivables	40,523	-3,636	36,887	57,044
C.IV.	Current financial assets	4,403,482		4,403,482	636,169
C.IV.1.	Cash on hand	40,264		40,264	104,534
C.IV.2.	Cash at bank	350,710		350,710	531,635
C.IV.3.	Short-term securities and investments	4,012,508		4,012,508	
D. I.	Other assets	47,777		47,777	127,859
D.I.1.	Deferred expenses	47,777		47,777	50,571
D.I.2.	Complex deferred expenses				62
D.I.3.	Accrued income				77,226

▶ AS OF 31. 12. IN CZK THOUSAND		31. 12. 2008	31. 12. 2007
TOTAL LIABILITIES & EQUITY		56,411,601	56,725,842
A.	Equity	42,325,997	41,308,580
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	20,986,548	21,530,096
A.II.1.	Share premium	16,256,957	16,438,595
A.II.2.	Other capital funds	-906,542	-866,015
A.II.3.	Gains or losses from the revaluation of assets and liabilities	5,636,133	5,957,516
A.III.	Statutory funds	177,734	168,565
A.III.1.	Statutory reserve fund / Indivisible fund	11,864	
A.III.2.	Statutory and other funds	165,870	168,565
A.IV.	Retained earnings	-449,399	-449,399
A.IV.2.	Accumulated losses brought forward	-449,399	-449,399
A.V.	Profit or loss for the current period (+ -)	1,611,114	59,318
B.	Liabilities	13,819,607	15,128,720
B.I.	Reserves	128,220	121,344
B.I.4.	Other reserves	128,220	121,344
B.II.	Long-term liabilities	4,637,312	4,525,673
B.II.5.	Long-term prepayments received		501
B.II.9.	Other payables	4,637,312	4,525,172
B.III.	Short-term liabilities	6,771,204	8,276,790
B.III.1.	Trade payables	3,863,446	5,299,660
B.III.4.	Payables to partners and association members	306,000	306,000
B.III.5.	Payables to employees	730,278	865,309
B.III.6.	Social security and health insurance payables	360,323	435,974
B.III.7.	State - tax payables and subsidies	118,232	136,881
B.III.8.	Short-term prepayments received	143,519	179,990
B.III.10.	Estimated payables	1,248,430	1,050,471
B.III.11.	Other payables	976	2,505
B.IV.	Bank loans and borrowings	2,282,871	2,204,913
B.IV.1.	Long-term bank loans	1,379,800	1,636,700
B.IV.2.	Short-term bank loans	903,071	568,213
C. I.	Other liabilities	265,997	288,542
C.I.1.	Accrued expenses	93,621	145,374
C.I.2.	Deferred income	172,376	143,168

➤ Profit and loss account as of 31. 12. 2008

▶ AS OF 31. 12. IN CZK THOUSAND		YEAR ENDED 31. 12. 2008	YEAR ENDED 31. 12. 2007
I.	Sales of goods	15,566	158,858
A.	Costs of goods sold	17,745	124,607
+	Gross margin	-2,179	34,251
II.	Production	16,688,854	36,594,791
II.1.	Sales of own products and services	16,494,641	36,262,033
II.2.	Change in internally produced inventory	1,926	2,945
II.3.	Own work capitalised	192,287	329,813
B.	Purchased consumables and services	13,759,558	22,798,555
B.1.	Consumed material and energy	5,208,342	7,507,848
B.2.	Services	8,551,216	15,290,707
+	Added value	2,927,117	13,830,487
C.	Staff costs	15,426,366	20,889,071
C.1.	Payroll costs	11,158,058	15,081,787
C.2.	Remuneration to members of statutory bodies	5,940	2,959
C.3.	Social security and health insurance costs	3,708,168	5,073,562
C.4.	Social costs	554,200	730,763
D.	Taxes and charges	49,354	45,154
E.	Depreciation of intangible and tangible fixed assets	2,234,776	2,710,449
III.	Sales of fixed assets and material	2,306,399	1,876,270
III.1.	Sales of fixed assets	856,230	1,311,071
III.2.	Sales of material	1,450,169	565,199
F.	Net book value of fixed assets and material sold	1,594,111	955,939
F.1.	Net book value of sold fixed assets	250,430	460,053
F.2.	Book value of sold material	1,343,681	495,886
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	1,475,792	36,547
IV.	Other operating income	10,013,231	9,586,000
H.	Other operating expenses	866,502	496,437
°	Operating profit or loss	-6,400,154	159,160
VI.	Proceeds from the sale of securities and investments	34,714	
J.	Cost of securities and investments sold	11,586	
VII.	Income from non-current financial assets	6,633	25,032
VII.3.	Income from other non-current financial assets	6,633	25,032
VIII.	Income from current financial assets	118,359	
X.	Interest income	6,746	12,961
N.	Interest expenses	264,392	245,081
XI.	Other financial income	135,355	371,701
O.	Other financial expenses	229,314	262,663
°	Financial profit or loss	-203,485	-98,050
Q.	Income tax on ordinary activities	531	1,792
Q 1.	- due	531	1,792
°°	Profit or loss from ordinary activities	-6,604,170	59,318
XIII.	Extraordinary income	11,852,101	
R.	Extraordinary expenses	3,636,817	
°	Extraordinary profit or loss	8,215,284	
°°°	Transfer of share of profit or loss to partners (+/-)	1,611,114	59,318
°°°°	Profit or loss for the current period (+/-)	1,611,645	61,110
	Profit or loss before tax		

› Statement of changes in equity

▶ IN CZK THOUSAND										AS OF 31. 12. 2008
	Share capital	Share premium	Other capital funds	Valuation gains or losses on the revaluation of assets and liabilities	Legal reserve fund	Statutory and other funds from profit	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY	
Balance at 31 December 2006	20,000,000	16,733,120	-843,996	712,942		294,305		-449,399	36,446,972	
Distribution of profit or loss							-449,399	449,399		
Creation of the social fund with a charge against share premium		-294,525				294,525				
Creation of the social fund - other						8,267			8,267	
Use of the social fund						-360,190			-360,190	
Investment of part of business in ČD Cargo a.s.						-68,342			-68,342	
Revaluation of non-current financial assets				5,244,574					5 244 574	
Profit or loss for the current period								59,318	59 318	
Other			-22,019						-22 019	
Balance at 31 December 2007	20,000,000	16,438,595	-866,015	5,957,516		168,565	-449,399	59,318	41,308,580	
Distribution of profit or loss					11,864	47,454		-59,318		
Creation of the social fund with a charge against share premium		-181,638				181,638				
Creation of the social fund - other						50,743			50,743	
Use of the social fund						-282,530			-282,530	
Revaluation of non-current financial assets				-321,383					-321,383	
Profit or loss for the current period								1,611,114	1,611,114	
Other			-40,527						-40,527	
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	

➤ Cash flow statement

▶ AS OF 31. 12. IN CZK THOUSAND		YEAR ENDED 31. 12. 2008	YEAR ENDED 31. 12. 2007
P.	Opening balance of cash and cash equivalents	636,169	2,042,450
	<i>Cash flows from ordinary activities</i>		
Z.	Profit or loss from ordinary activities before tax	-6,603,639	61,110
A.1.	Adjustments for non-cash transactions	3,510,256	1,906,610
A.1.1.	Depreciation of fixed assets	2,234,776	2,710,449
A.1.2.	Change in provisions and reserves	1,475,792	36,546
A.1.3.	Profit/(loss) on the sale of fixed assets	-605,800	-851,018
A.1.4.	Revenues from dividends and profit shares	-6,633	-25,032
A.1.5.	Interest expense and interest income	257,646	232,120
A.1.6.	Adjustments for other non-cash transactions	154,475	-196,455
A.°	Net operating cash flow before changes in working capital	-3,093,383	1,967,720
A.2.	Change in working capital	-425,294	555,349
A.2.1.	Change in operating receivables and other assets	856,394	-1,345,092
A.2.2.	Change in operating payables and other liabilities	-1,156,540	1,780,709
A.2.3.	Change in inventories	-125,148	117,624
A.2.4.	Change in current financial assets		2,108
A.°°	Net cash flow from operations before tax and extraordinary items	-3,518,677	2,523,069
A.3.	Interest paid	-208,065	-206,386
A.4.	Interest received	6,746	12,961
A.5.	Income tax paid from ordinary operations	-694	-1,630
A.6.	Receipts and expenditures relating to extraordinary activities	11,852,101	
A.7.	Received dividends and profit shares	6,633	25,032
A.°°°	Net operating cash flows	8,138,044	2,353,046
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-5,105,105	-6,205,491
B.2.	Proceeds from fixed assets sold	856,253	1,310,956
B.IV.	Cash investment in a subsidiary		-55,688
B.°°°	Net investment cash flows	-4,248,852	-4,950,223
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	109,908	1,542,783
C.2.	Impact of changes in equity	-231,787	-351,887
C.2.3.	Other cash contributions made by partners	50,743	8,303
C.2.5.	Payments from capital funds	-282,530	-360,190
C.°°°	Net financial cash flows	-121,879	1,190,896
F.	Net increase or decrease in cash and cash equivalents	3,767,313	-1,406,281
R.	Closing balance of cash and cash equivalents	4,403,482	636,169

Notes to the financial statements ČD, a.s.

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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 nábr. L. Svobody 1222/12, 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 2008. The reporting period is the calendar year, i.e. from 1 January 2008 to 31 December 2008.
- ▶ 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. Railway freight transportation represented a significant part of the Company's operation in previous years. For this reason, the information in the financial statements for the years ended 31 December 2007 and 31 December 2008 is not fully comparable.

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 a portion of its business to SŽDC as described in Note 1.6. For this reason, the Company ceased to be responsible for securing the operability of the railway route but it continues to service the route.

Due to the sale of the part of business to SŽDC and an investment of part of the business to ČD Cargo as discussed above, the financial information for the years ended 31 December 2007 and 2008 is not fully comparable.

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 Marketing and Communication.

In 2008, the Company formed two new sections – the section of the Company's Deputy CEO for Human Resources and the section of the Company's Deputy CEO for Marketing and Communication.

► 1.4. The Company's Bodies

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

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 2008

	POSITION	NAME
Steering Committee	Chairman	Petr Šlegř
	Vice Chairman	Jiřĩ Hodač
	Member	Vojtěch Kocourek
	Member	Miroslav Kalous
	Member	Miloslav Müller
	Member	Petr Polák
	Member	Bohumil Haase

Through its Resolution No. 161 dated 2 February 2009, 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 Jiřĩ Hodač, Vice Chairman of the Steering Committee, and Vojtěch Kocourek, member of the Steering Committee, and authorised Zdeněk Žák to be the Vice Chairman of the Steering Committee and Pavel Škvára to be a member of the Steering Committee with effect from 3 February 2009.

In addition, through its Resolution No. 505 dated 20 April 2009 and Resolution No. 555 dated 27 April 2009, the Government changed the composition of the Company's Steering Committee. As of 20 April 2009, the Government revoked the authorisation for activity for Petr Šlegř, Chairman of the Steering Committee, and Zdeněk Žák, Vice Chairman of the Steering Committee, and authorised Pavel Škvára to be the Vice Chairman of the Steering Committee from 21 April 2009, Eduard Havel to be a member of the Steering Committee from 20 April 2009, and Roman Boček to be the Chairman of the Steering Committee from 27 April 2009.

	POSITION	NAME
Board of Directors	Chairman	Petr Žaluda
	Member	Petr Moravec
	Member	Michal Nebeský
	Member	Jiřĩ Kolář
	Member	Milan Matzenauer
	Member	Josef Bazala

As of 29 January 2008, Josef Bazala resigned from the position of the Chairman of the Board of Directors and remained in the position of a member of the Board of Directors. As of 31 January 2008, Rodan Šenekl resigned from the position of a member of the Board of Directors. On 1 February 2008, the Supervisory Board of the Company appointed Petr Žaluda to the position of the Chairman and member of the Board of Directors. On 15 March 2008, Petr Moravec was appointed member of the Board of Directors. On 11 September 2008, Vladimír Filip resigned from the position of member of the Board of Directors and on 12 September 2008, Michal Nebeský was appointed to be a member of the Board of Directors. On 13 November 2008, Petr David was recalled from the position of the member of the Board of Directors and with effect from 14 November 2008, Milan Matzenauer was appointed to be a member of the Board of Directors.

	POSITION	NAME
Supervisory Board	Chairman	Vojtěch Kocourek
	Member	Jan Bitter
	Member	Karel Březina
	Member	Jan Černožorský
	Member	Jaromír Dušek
	Member	Tomáš Chalánek
	Member	Jiří Kratochvíl
	Member	Zdeněk Prosek
	Member	Martin Roman

On 31 December 2008, Jaromír Dušek's and Jiří Kratochvíl's terms of office as members of the Supervisory Board expired and on 1 January 2009, the term of office of the newly appointed members of the Supervisory Board, Vladislav Vokoun and Antonín Leitgeb, commenced.

On 18 February 2009, the Steering Committee of the Company approved Vojtěch Kocourek's notice of resignation from the positions of Chairman and the member of the Supervisory Board and recalled a member of the Supervisory Board, Jan Černožorský. With effect from 19 February 2009, the Steering Committee of the Company appointed Zdeněk Žák to be the Chairman and member of the Supervisory Board, and Pavel Škvára to be a member of the Supervisory Board.

In addition, the Steering Committee recalled Zdeněk Žák from the position of Chairman and member of the Company's Supervisory Board on 28 April 2009.

► 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. As of this date, 18 business units and a part of the section of the Company's CEO was spun-off from the Company and transferred to SŽDC.

In place of the Company, SŽDC secures the operability of the national and regional railway network and organises railway transportation on these routes, which includes preparation of the railway timetable and fire brigade activities, i.e. independently performs certain railway operation activities. For this purpose, the Company's relevant material, technological and human resources were transferred to SŽDC. Other railway operation activities (railway servicing and organising railway transport under extraordinary circumstances) including the relevant capacities remained the responsibility of the Company, which delivers the activities to SŽDC, the railway operator, as a contractor.

The selling price stated in the contract for the sale of part of the 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 third quarter of 2008, financial transactions and accounting entries based on the above-mentioned contract and relating agreements were effected. The selling price and the carrying amount of the assets of the sold part of the Company's business are presented in the extraordinary section of the profit and loss account. The sale included payables in the amount of CZK 1,758,641 thousand, which were paid by the Company based on a separate contract for the settlement of the payables to creditors.

The table below presents the carrying amounts of individual classes of assets and liabilities that were subject to the sale. The table summarises the assets and liabilities that were removed from the Company's accounts as of the sale date.

ASSETS	CARRYING AMOUNT AS OF 30 JUNE 2008
Intangible fixed assets	41,053
Tangible fixed assets	3,271,415
Inventory	151,296
Receivables	181,634
Current financial assets	14,427
Other assets	16
Total	3,659,841

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 (the 'Transformation Act') 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
Locomotives	20 – 25
Passenger coaches	20
Wagons	25 – 33
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 provided 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 recognised at cost upon acquisition and subsequently 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 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 2008 is negative.

Valuation 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 or certain 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. Income Taxes**

▶ **3.11.1. 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.

▶ **3.11.2. 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.

▶ **3.12. 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.

▶ **3.13. Financial Derivatives**

At the balance sheet date, the Company did not enter into any financial derivative.

▶ **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 2008, 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:

► IN CZK THOUSAND	31. 12. 2008	31. 12. 2007
Cash on hand and cash in transit	40,264	104,534
Cash at bank	350,710	531,635
Short-term securities and investments	4,012,508	0
Total cash and cash equivalents	4,403,482	636,169

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

The business part engaged in railway freight transportation was spun-off to the subsidiary ČD Cargo, a. s. as of 1 December 2007. It was a significant part of the Company. For this reason, the comparative information disclosed in Note 4 for the years ended 31 December 2008 and 2007 is not fully comparable.

► 4.1. Intangible Fixed Assets

► IN CZK THOUSAND							
Acquisition cost	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Research and development	102,757	0	105	102,652	1,577	191	104,038
Software	772,989	602,541	83,135	1,292,395	109,368	688,707	713,056
Valuable rights	1,729,359	7,237	3,600	1,732,996	210,157	0	1,943,153
Other assets	1,061	0	0	1,061	0	301	760
Intangible assets under construction	521,004	242,493	694,725	68,772	144,237	128,508	84,501
Total	3,127,170	852,271	781,565	3,197,876	465,339	817,707	2,845,508

► IN CZK THOUSAND							
Accumulated amortisation	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Research and development	102,650	13	104	102,559	59	191	102,427
Software	690,786	46,602	55,180	682,208	14,286	391,236	305,258
Valuable rights	1,729,359	3,637	0	1,732,996	180,485	757	1,912,724
Other assets	962	20	20	962	10	212	760
Intangible assets under construction	0	0	0	0	0	0	0
Total	2,523,757	50,272	55,304	2,518,725	194,840	392,396	2,321,169

► IN CZK THOUSAND							
Provisions	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Software	0	0	0	0	38,305	0	38,305

► IN CZK THOUSAND			
Net book value	Balance at 1 Jan 2007	Balance at 31 Dec 2007	Balance at 31 Dec 2008
Research and development	107	93	1,611
Software	82,203	610,187	369,493
Valuable rights	0	0	30,429
Other assets	99	99	0
Intangible assets under construction	521,004	68,772	84,501
Total	603,413	679,151	486,034

In the year ended 31 December 2007, the Company disposed of a part of intangible fixed assets due to the formation of the subsidiary ČD Cargo, a. s. as of 1 December 2007. The aggregate amount of the disposals of intangible fixed assets at net book values as of 1 December 2007 was CZK 175,169 thousand, of which software amounted to CZK 25,229 thousand, valuable rights amounted to CZK 3,600 thousand and intangible assets under construction amounted to CZK 146,340 thousand.

In the year ended 31 December 2008, the Company disposed of a part of intangible fixed assets due to the sale of a business part as of 1 July 2008. The aggregate net book value of disposed of intangible fixed assets in this sale amounted to CZK 41,053 thousand.

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 additionally include software for the monitoring of trains, train traffic management, expenses relating to the SAP R/3, IS OPT, SENA, and PARIS accounting software. Additions to valuable rights predominantly include licences for access rights for software.

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

► 4.2. Tangible Fixed Assets

► IN CZK THOUSAND							
Acquisition cost	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Land	7,192,353	25,239	136,506	7,081,086	50,761	656,678	6,475,169
Buildings	22,051,504	872,311	1,286,743	21,637,072	1,264,798	6,232,413	16,669,457
Individual movable assets	55,974,235	4,869,854	19,369,612	41,474,477	3,202,277	4,844,883	39,831,871
- Machinery, equipment, and furniture and fixtures	5,693,842	91,598	1,059,388	4,726,052	275,712	2,536,787	2,464,977
- Vehicles	49,993,910	4,777,690	18,262,117	36,509,483	2,921,013	2,184,366	37,246,130
- Other	286,483	566	48,107	238,942	5,552	123,730	120,764
Other assets	4,542	0	32	4,510	0	291	4,219
Tangible assets under construction	814,177	6,774,926	5,966,610	1,622,493	4,334,483	5,242,715	714,261
Prepayments	1,644,158	1,512,696	2,168,303	988,551	1,832,046	808,287	2,012,310
Total	87,680,969	14,055,026	28,927,806	72,808,189	10,684,365	17,785,267	65,707,287

► IN CZK THOUSAND							
Accumulated depreciation	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Buildings	11,927,959	442,586	755,103	11,615,442	380,720	4,093,787	7,902,375
Individual movable assets	34,584,963	2,654,235	15,317,473	21,921,725	2,754,929	4,990,164	19,686,490
- Machinery, equipment, and furniture and fixtures	4,449,002	234,038	948,470	3,734,570	165,941	2,138,408	1,762,103
- Vehicles	29,893,191	2,408,090	14,324,730	17,976,551	2,577,067	2,729,276	17,824,342
- Other	242,770	12,107	44,273	210,604	11,921	122,480	100,045
Other assets	402	0	0	402	0	218	184
Tangible assets under construction	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0
Total	46,513,324	3,096,821	16,072,576	33,537,569	3,135,649	9,048,169	27,589,049

NOTES TO THE FINANCIAL STATEMENTS ČD, A.S.

► IN CZK THOUSAND							
Provisions	Balance at 1 Jan 2007	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Land	3,277	6,555	6,555	3,277	8,473	5,875	5,875
Buildings	70,702	72,009	72,496	70,215	54,490	70,616	54,089
Individual movable assets	304,462	330,505	308,478	326,489	1,588,901	326,489	1,588,901
- Machinery, equipment, and furniture and fixtures	2,887	1,889	2,888	1,888	,1,929	1,888	1,929
- Vehicles	301,575	328,616	305,590	324,601	1,586,972	324,601	1,586,972
- 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	378,441	409,069	387,529	399,981	1,651,864	402,980	1,648,865

► IN CZK THOUSAND			
Net book value	Balance at 1 Jan 2007	Balance at 31 Dec 2007	Balance at 31 Dec 2008
Land	7,189,076	7,077,809	6,469,294
Buildings	10,052,843	9,951,415	8,712,993
Individual movable assets	21,084,810	19,226,263	18,556,480
- Machinery, equipment, and furniture and fixtures	1,241,952	989,594	700,945
- Vehicles	19,799,144	18,208,332	17,834,816
- Other	43,714	28,337	20,719
Other assets	4,140	4,108	4,035
Tangible assets under construction	814,177	1,622,493	714,261
Prepayments	1,644,158	988,551	2,012,310
Total	40,789,204	38,870,639	36,469,373

Disposals of tangible fixed assets in the year ended 31 December 2007 included the investment of assets in the subsidiary DPOV, a. s. at the net book value of CZK 145,424 thousand.

During 2007, the amount of tangible fixed assets significantly decreased due to the formation of ČD Cargo, a. s. Disposals of tangible fixed assets at net book values as of 1 December 2007 amounted to CZK 4,627,887 thousand of which land amounted to CZK 72,616 thousand, buildings amounted to CZK 391,154 thousand, machinery and equipment amounted to CZK 81,688 thousand, vehicles amounted to CZK 3,886,932 thousand, other tangible fixed assets amounted to CZK 2,314 thousand, other tangible fixed assets amounted to CZK 19 thousand, tangible fixed assets under construction amounted to CZK 192,754 thousand and prepayments made for tangible fixed assets amounted to CZK 410 thousand.

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 year ended 31 December 2008, the Company recognised a provision against the product of the 680 series vehicles with moving bodies (Pendolino) in the amount of CZK 1,433,000 thousand.

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 1,666,000 thousand and the 380 series electric three-system locomotives in the amount of CZK 87,572 thousand.

Principal additions to tangible assets include the improvements on 680 series electric locomotives of CZK 190,668 thousand, inclusion of 471 series electric locomotives in the amount of CZK 1,624,322 thousand and inclusion of 814 series electric locomotives in the amount of CZK 673,840 thousand. Other significant additions to tangible assets include the start-up of the washer for rail vehicles in the amount of CZK 75,366 thousand.

In the year ended 31 December 2008, the volume of tangible fixed assets significantly decreased due to the sale of the business part. Disposals of tangible fixed assets at net book values as of 1 July 2008 amounted to CZK 3,271,415 thousand of which land of CZK 517,969 thousand, buildings of CZK 2,014,436 thousand, machinery and equipment of CZK 383,018 thousand, vehicles of CZK 342,660 thousand and other tangible fixed assets of CZK 6,036 thousand and tangible fixed assets under construction of CZK 7,296 thousand.

► 4.2.1. Pledged Assets

The Company holds assets that were pledged as security – train sets of the 471 series at an acquisition cost of CZK 1,236,140 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 2008 was CZK 843,491 million (31 December 2007: CZK 1,632 million). 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 2008 amounted to CZK 661,882 thousand (31 December 2007: CZK 526,635 thousand), of which the grants from the State Fund of Transport Infrastructure amounted to CZK 240,731 thousand in the year ended 31 December 2008 (2007: CZK 129,130 thousand).

► 4.2.4. Assets Held under Finance Leases

► IN CZK THOUSAND							
	Date of inception	Term in months	Total lease value	Payments made in 2007	Payments made in 2008	Due in 2009	Due in the following years
AU analyser	June 2003	36	2,095	2,095	0	0	0
Motor vehicles of the 854 series	Jan 2006	126	313,511	44,083	75,451	31,465	206,595
WLABmz sleeping cars	March 2007	120	956,061	71,705	167,311	95,606	693,144
28 modernised rail vehicles	Dec 2007	132	867,556	0	0	86,756	780,800
Total			2,139,223	117,883	242,762	213,827	1,680,539

A portion of assets under finance lease were transferred to ČD Cargo, a. s. as of 1 December 2007:

► IN CZK THOUSAND								
Freight rail vehicles	Date of inception	Term in months	Total lease value	Payments made in 2005	Payments made in 2006	Payments made in 2007	Due in 2008	Due in the following years
Sggmrss rail vehicles	Oct,2005	96	145,613	4,396	18,202	17,537	0	0
Tadnss & Tadvnss rail vehicles	April 2006	96	294,719	0	17,024	33,677	0	0
Habbillnss rail vehicles	Dec 2005	96	866,711	0	82,770	98,184	0	0
Zacns rail vehicles	April 2006	96	81,276	0	6,209	9,314	0	0
Sgnss rail vehicles	Dec 2006	123	418,263	0	0	27,884	0	0
Locomotives of the 709 series	Dec 2006	120	58,940	0	0	5,403	0	0
Total			1,865,522	4,396	124,205	191,999	0	0

The transfer included the remaining payable from the lease of the Sggmrss freight rail vehicles totalling CZK 105,478 thousand, Tadnss & Tadvnss rail vehicles totalling CZK 244,018 thousand, Habbillnss rail vehicles totalling CZK 685,757 thousand, Zacns rail vehicles totalling CZK 65,753 thousand, Sgnss rail vehicles totalling CZK 390,379 thousand and locomotives of the 709 series totalling CZK 53,537 thousand.

Other assets held under operating leases recorded off-balance sheet amounted to CZK 11,729 thousand and CZK 17,938 thousand in the years ended 31 December 2008 and 2007, respectively.

► 4.3. Non-Current Financial Assets

► 4.3.1. Equity Investments in Subsidiaries

► IN CZK THOUSAND								AS OF 31 DECEMBER 2008
Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2008	Valuation at 31 Dec 2008	
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-5,658	51%	46,260	**)	23,592	
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66%	-140	-442	0	
ČD Reality a. s.	Prague 6, Václavkova 169/1	1,020	2,873	51%	7,633	-1,336	3,893	
Dopravní vzdělávací institut, a. s.	Prague 1, Hybernská 1014/13	3,200	5,418	100%	8,618	2,983	8,618	
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51%	-3,387	-1,779	0	
ČD travel, s. r. o.**)	Prague 1, Hybernská 1034	7,500	595	51,72%	15,657	916	8,095	
Traťová strojná společnost, a. s.	Hradec Králové Jičínská 1605	287,483	132,237	51%	822,981	61,638	419,720	
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	330,414	91,458	100%	421,872	39,817	421,872	
ČD – Telematika a. s.	Prague 3, Pernerova 2819/2a	673,152	535,261	59,31%	2,037,453	45,488	1,208,413	
DPOV, a. s.	Přerov, Husova 635/1b	386,395	50,761	100%	437,156	52,478	437,156	
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	3,883,750	4,676,578	100%	8,560,328	581,367	8,560,328	
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-42	51%	1,917	-61	978	
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-162	51%	1,683	-242	858	
Total		5,605,884	5,487,639				11,093,523	

**) Change in the registered office since 19 Jan 2009: Na Příkopě 988/31, Prague 1 **) The final financial statements for the year ended 31 December were not provided

► IN CZK THOUSAND								AS OF 31 DECEMBER 2007
Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss for 2007	Valuation at 31 Dec 2007	
RAILREKLAM, spol. s r. o.	Prague 1, Klimentská 36/1652	29,250	-9,938	51%	37,867	5,386	19,312	
RailReal a. s.	Prague 3, Olšanská 1a	660	-660	66%	-1,157	-1,983	0	
ČD Reality a. s.	Prague 1, Hybernská 1034/5	1,020	3,554	51%	8,969	398	4,574	
Dopravní vzdělávací institut, a. s.	Prague 1, Hybernská 1014/13	3,200	2,809	100%	6,009	373	6,009	
Smíchov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	-1,020	51%	-1,609	-1,690	0	
ČD travel, s. r. o.	Prague 1, Hybernská 1034	7,500	121	51,72%	14,741	503	7,621	
Traťová strojná společnost, a. s.	Pardubice, Hlaváčova 206	287,483	102,209	51%	764,102	53,058	389,692	
Výzkumný Ústav Železniční, a. s.	Prague 4, Novodvorská 1698	330,414	52,297	100%	382,711	7,085	382,711	
ČD – Telematika a. s.	Prague 3, Pernerova 2819/2a	673,152	508,977	59,31%	1,993,136	51,710	1,182,129	
DPOV, a. s.	Přerov, Husova 635/1b	387,425	-2,134	100%	385,291	50,262	385,291	
ČD Cargo, a. s.	Prague 1, nábř.L.Svobody 1222	3,883,750	5,182,250	100%	9,066,000 ^{*)}	**)	9,066,000	
ČD-GeneralvertretungWien GmbH	Vienna, Rotenturmstrasse 22/24	1,293	2,637	100%	3,930	2,025	3,930	
Žižkov Station Development, a. s.	Prague 8, Ke Štvanici 656/3	1,020	0	51%	2,000	-22	1,020	
Centrum Holešovice, a. s.	Prague 1, Revoluční 767/25	1,020	-38	51%	1,925	-75	982	
Total		5,608,207	5,841,064				11,449,271	

*) Figure from the opening balance sheet of ČD Cargo, a. s. as of 1 December 2007 **) The end of the first reporting period of ČD Cargo, a. s. will be on 31 December 2008.

The equity investment in RAILREKLAM, spol. s r.o. was made on the basis of a Founding Deed dated 21 February 1991. On the basis of an agreement dated 28 December 2000, a 50 percent equity investment held by Österreichisches Verkehrsbüro AG was transferred to the Company for CZK 29 million. As such, the Company became the sole owner of RAILREKLAM, spol. s r.o. On 6 February 2004, RAILREKLAM, spol. s r.o. increased its share capital to CZK 13.5 million. On 6 April 2007, a contract for the investment of TARDUS, s.r.o. in RAILREKLAM was concluded. This investments decreased the equity investment of the Company from 100 percent to 51 percent. The increase in the capital was recorded in the Register of Companies on 2 June 2007. RAILREKLAM, spol. s r.o. is engaged in advertising activities specifically related to railway transportation.

RailReal a.s. was incorporated following its registration in the Register of Companies on 6 December 2000. The Company acquired the shares of RailReal a.s. on the basis of deeds of donation dated 20 December 2000. The entity is principally engaged in undertaking design and engineering activities in investment construction.

ČD - Telematika a. s., principal activities – provision of telecommunication services, software and advisory, assembly, maintenance, and servicing. ČD, a.s. increased its equity investment in ČD - Telematika a. s. from 40 percent to 51 percent by an investment of part of the business, it was registered in the Register of Companies on 4 May 2005. The General Meeting of ČD – Telematika a. s. held on 28 June 2006 decided to decrease the share capital by CZK 332,644 thousand through the withdrawal of shares from circulation for consideration. This was recorded in the Register of Companies on 13 February 2007 and the equity investment of ČD, a.s. increased to 59.31 percent.

ČD Reality a.s. was incorporated following registration in the Register of Companies on 16 November 2004. The entity is engaged in investment construction engineering activities, preparation and implementation of revitalisation projects and other related activities.

Tražová strojní společnost, a.s., registered in the Register of Companies on 1 January 2005, principal activities: maintenance and repair of track superstructure, operation, repairs and renovation of railway machines. The company was formed by an investment of part of the business of České dráhy, a.s. On 15 December 2005, the contract for the investment of OHL ŽS, a. s. (former ŽS Brno) in Tražová strojní společnost was entered into. The investment decreased the shareholding of České dráhy from 100 percent to 51 percent. The increased share capital was recorded in the Register of Companies on 15 February 2006.

Výzkumný Ústav Železniční, a.s., registered in the Register of Companies on 1 July 2005, principal activities: testing engineering, research and development of rail vehicles and infrastructure equipment. The company was formed by an investment of part of the business of České dráhy, a.s.

Smíchov Station Development, a.s., registered in the Register of Companies on 1 June 2005, principal activities: design, renovation, modernisation and development of the Smíchovské nádraží locality.

ČD travel, s. r. o., registered in the Register of Companies on 1 August 2005, principal activities: travel agency and provision of related services. On 10 October 2006, České dráhy, a.s., as the sole owner of ČD travel, s. r. o. approved the increase in the share capital of the company of CZK 7 million through a cash contribution by OSŽ which became the new owner of ČD travel, s. r. o. The transaction was recorded in the Register of Companies on 8 March 2007. As of that date, the equity investment of České dráhy a.s. in ČD travel decreased to 51.7 percent.

Dopravní vzdělávací institut, a.s., registered in the Register of Companies on 21 September 2005, principal activities: organisation of courses, educational events and training activities, including tutoring activities, and language courses.

In the year ended 31 December 2007, the following new subsidiaries were formed:

DPOV, a. s., registered in the Register of Companies on 1 January 2007. The company is engaged in inspections, modernisation and renovation of rail vehicles. The company was formed through a spin-off from České dráhy, a. s.

CD – Generalvertretung Wien GmbH was formed on 30 March 2007 in Austria through the investment of České dráhy, a.s. in the amount of EUR 45 thousand. The company is engaged in business representation. On 22 January 2008, České dráhy, a.s. sold the company to its subsidiary ČD Cargo, a. s.

Centrum Holešovice a. s., registered in the Register of Companies on 2 May 2007. The company is engaged in the preparation of the project for the revitalisation of the train station area in Holešovice. The equity investment of České dráhy is 51 percent.

ČD Cargo, a. s., registered in the Register of Companies on 1 December 2007. The company was formed through the spin-off from České dráhy, a. s. The activities relating to railways freight transport were transferred to this subsidiary. České dráhy is the sole owner of this company.

Žižkov Station Development, a. s., registered in the Register of Companies on 14 December 2007. The equity investment of České dráhy, a. s. amounts to 51 percent. The company is engaged in the lease of real estate – apartments and non-residential premises.

► 4.3.2. Equity Investments in Associates

► IN CZK THOUSAND							AS OF 31 DECEMBER 2008	
Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss in 2008	Valuation at 31 Dec 2008	
CR-City a. s.	Prague 3, Olšanská 1a	680	-310	34%	1,087	**)	370	
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34%	-5,615	**)	0	
Jídelní a lůžkové vozy, a. s.	Prague 4, Chodovská 3/228	20,000	92,839	38,79%	289,470	**)	112,839	
CR office a.s.	Prague 3, Olšanská 2643/1a	680	-158	34%	1,535	**)	522	
RS hotel a.s.	Prague 3, Olšanská 2643/1a	680	-128	34%	1,574	**)	552	
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	52,611	34%	154,940	87,629	52,679	
WHITEWATER a.s.	Prague 3, Olšanská 2643/1a	680	-172	34%	1,494	**)	508	
ČD Restaurant, a.s.	Prague 6, Václavkova 169/1	4,000	2,846	40%	17,116	**)	6,846	
Total		27,468	146,848				174,316	

**) Companies did not provide the final financial statements for the year ended 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS ČD, A.S.

► IN CZK THOUSAND					AS OF 31 DECEMBER 2007		
Business name of the entity	Registered office	Cost	Revaluation	Ownership percentage	Equity	Profit or loss in 2008	Valuation at 31 Dec 2008
CR-City a. s.	Prague 3, Olšanská 1a	680	-188	34%	1,448	-495	492
Masaryk Station Development a. s.	Prague 3, Olšanská 1a	680	-680	34%	-3,085	-2,853	0
Jídelní a lůžkové vozy, a. s.	Prague 4, Chodovská 3/228	20,000	89,703	38,79%	282,812	6,404	109,703
CR office a.s.	Prague 3, Olšanská 2643/1a	680	-124	34%	1,634	-102	556
ČD Logistic, a.s.	Prague 3, Olšanská 2643/1a	3,400	-375	34%	8,896	-1,104	3,025
RS hotel a.s.	Prague 3, Olšanská 2643/1a	680	-116	34%	1,659	-116	564
RS residence s.r.o.	Prague 3, Olšanská 2643/1a	68	22,817	34%	67 310	1,390	22,885
WHITEWATER a.s.	Prague 6, Václavkova 169/1	680	-132	34%	1,611	-181	548
ČD Restaurant, a.s.	Praha 6, Václavkova 169/1	4,000	-657	20%	16,713	-3,287	3,343
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9	7,000	3,528	20%	52,646	17,645	10,528
Total		37,868	113,776				151,644

► 4.3.3. Other Equity Investments and Securities

Type of security and investment	31 Dec 2008	31 Dec 2007
PraK, a. s.	850	850
STROJEXPORT, a. s.	58	2,300
Hit Rail B.V.	4,017	4,017
EUROFIMA	262,873	262,873
INTERCONTAINER-INTERFRIGO, o. s.	5,189	5,189
INTERNATIONALE SPEDITION Děčín a. s.	8	8
Total	272,995	275,237

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.

► 4.4. Inventory

► IN CZK THOUSAND		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Spare parts for machinery and equipment	315,717	290,925
Spare parts and other components for rail vehicles and locomotives	507,336	456,283
Other spare parts and other minor components	198,171	151,904
Fuels and other oil products	26,442	30,048
Switches, turntables, traverse tables and components for rail superstructures	0	129,254
Work clothes, work shoes, protective devices	236,737	242,541
Other	104,944	114,541
Total cost	1,389,347	1,415,496
Provisions	5,959	12,502
Total net book value	1,383,388	1,402,994

The Company records provisions against redundant inventory components and/or inventory that carries the risk of its net realisable value being lower than cost. The decrease in 2007 was due to the sale of the business part to SŽDC, scrapping and release of the provision due to the grounds for provisioning ceasing to exist as highlighted by inventory taking.

The inventories required for use in the long-term within the entire Company are gathered in the Supply Centre in Česká Třebová.

► 4.5. Short-Term Receivables

► 4.5.1. Trade Receivables

► IN CZK THOUSAND									
Year	Category	Before due date	Past due (in days)					Total	Total
			0 - 90	91 - 180	181 - 365	366 - 730	731 and greater		
2008	Gross	628,231	5,686	15,668	43,445	7,301	23,637	95,737	723,968
	Provisions	0	-26	-4,921	-43,445	-7,301	-23,637	79,330	-79,330
	Net	628,231	5,660	10,747	0	0	0	16,407	644,638
2007	Gross	1,626,770	275,235	13,169	27,477	19,153	13,609	348,643	1,975,413
	Provisions	0	-53	-5	-22,622	-14,036	-13,609	-50,325	-50,325
	Net	1,626,770	275,182	13,164	4,855	5,117	0	298,318	1,925,088

► 4.5.2. Intercompany Receivables

► IN CZK THOUSAND		
Entity	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Short-term receivables		
Trade receivables		
ČD - Telematika a. s.	3,835	23,448
Traťová strojní společnost, a. s.	8,389	13,029
Výzkumný Ústav Železniční, a. s.	151	1,974
Jídelní a lůžkové vozy, a. s.	1,916	635
DPOV, a. s.	48,642	70,865
ČD Cargo, a. s.	263,096	1 009,256
Total short-term intercompany receivables*	326 029	1 119,207
Other than intercompany receivables	397,939	856,206
Total short-term intercompany receivables - gross	723,968	1,975,413
Provision against receivables	-79,330	-50,325
Total short-term trade receivables - net	644,638	1,925,088

*Receivables from other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany receivables.

► 4.5.3. Tax Receivables

As of 31 December 2008 and 2007, tax receivables amounted to CZK 387,641 thousand and CZK 144,266 thousand, respectively, and largely consisted of receivables arising from VAT.

► 4.5.4. Prepayments Made

As of 31 December 2008 and 2007, short-term prepayments made amounted to CZK 110,699 thousand and CZK 267,385 thousand, respectively, and largely consisted of prepayments made for the supply of services (electricity, heat, etc.).

► 4.6. Estimated Receivables

► IN CZK THOUSAND		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Cross-border rentals for passenger coaches	479,297	480,142
Income from international transportation - passenger transportation	144,382	143,601
Other	227,994	81,651
Total estimated receivables	851,673	705,394

Cross-border rentals for passenger coaches are billed retroactively for 12 months. Income from international passenger transportation represents an amount due from the transportation services provided as of 31 December 2008 which were not billed to the foreign railway organisations. Other estimated receivables include the estimate of damages for the accident in Studénka of CZK 55.5 million.

► 4.7. 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.

The revaluation of the non-current financial assets using the equity method of accounting amounted to CZK 5,957,516 thousand and CZK (540,203) thousand for the years ended 31 December 2007 and 2008, respectively.

The increase in statutory and other funds predominantly includes an allocation to the social fund in the amount of CZK 229,092 thousand, of which CZK 181,638 thousand is charged against the share premium and CZK 47,454 thousand from the profit for the year ended 31 December 2007. The amount of CZK 229,092 thousand represents 2 percent of the annual expenses recognised for salaries and compensation for salaries for the year ended 31 December 2007.

The General Meeting approved the proposed allocation of the net profit for the year ended 31 December 2007 amounting to CZK 59,318 thousand. The amount of CZK 11,864 thousand, i.e. 20 percent of the net profit of 2007, was allocated to the reserve fund and CZK 47,454 thousand was allocated to the social fund.

► 4.8. Reserves

► IN CZK THOUSAND							
	Balance at 1 Jan 2007	Charge	Use	Balance at 31 Dec 2007	Charge	Use and investment ^o	Balance at 31 Dec 2008
Reserve for claims	28,155	23,274	51,429	0		0	0
Reserve for rents	13,906	14,153	13,906	14,153	10,819	14,153	10,819
Reserve for legal disputes	10,107	12,660	10,107	12,660	25,585	12,660	25,585
Reserve for outstanding vacation days	46,450	94,531	46,450	94,531	91,816	94,531	91,816
Reserve for bonuses	37,680	33,795	71,475	0	0	0	0
Total reserves	136,298	178,413	193,367	121,344	128,220	121,344	128,220

^oThe reserve for claims and the reserve for bonuses in the aggregate amount of CZK 57,069 thousand was part of the investment in the subsidiary ČD Cargo, a. s. as of 1 December 2007.

All of the reserves charged in the year ended 31 December 2008 are non-tax deductible.

► 4.9. Long-Term Payables

► IN CZK THOUSAND		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Payable to EUROFIMA	4,443,396	4,392,247
Long-term received prepayments	0	501
Other	193,916	132,925
Total long-term payables	4,637,312	4,525,673

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 2008 and 2007 was CZK 31,436 thousand and CZK 41,780 thousand, respectively.

Long-term supplier payables in 2008 and 2007 included construction investments.

► 4.10. Short-Term Payables

► 4.10.1 Trade Payables

► IN CZK THOUSAND									
Year	Category	Before due date	Past due (in days)					Total	Total
			0 - 90	91 - 180	181 - 365	366 - 730	731 and more		
2008	Short-term	3,234,825	512,354	74,942	22,107	5,275	13,943	628,621	3,863,446
2007	Short-term	4,512,696	766,333	2,416	3,487	13,302	1,426	786,964	5,299,660

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

► 4.10.2 Intercompany Payables

► IN CZK THOUSAND		
Entity	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Short-term payables		
Trade payables		
ČD – Telematika a. s.	182,238	389,438
Traťová strojní společnost, a. s.	125	11,559
Výzkumný Ústav Železniční, a. s.	446	1,087
Jídelní a lůžkové vozy, a. s.	37,261	5,865
DPOV, a. s.	210,277	176,479
ČD Cargo, a. s.	35,504	7,999
Total short-term intercompany payables*	465,851	592,427
Other than intercompany payables	3,397,595	4,707,233
Total short-term trade payables	3,863,446	5,299,660

*Payables to other related parties, except for the above noted, are deemed immaterial and were included in other than intercompany payables.

► 4.10.3 Payables Arising from the Investment in ČD Cargo, a. s.

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.

► 4.10.4 Tax Payables and Subsidies

As of 31 December 2008, tax payables were largely composed of personal income tax from dependent activities deducted from the gross wages of the Company's employees amounting to CZK 98,030 thousand (31 December 2007: CZK 123,540 thousand) and an outstanding amount of the investment subsidy received by the Company from the EU of CZK 7,471 thousand (31 December 2007: CZK 6,860 thousand).

► 4.10.5 Prepayments Received

As of 31 December 2008, short-term prepayments received amounted to CZK 143,519 thousand (31 December 2007: CZK 179,990 thousand) and were largely composed of rental prepayments.

► 4.11 Estimated Payables

► IN CZK THOUSAND		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Rental for passenger coaches of foreign companies in the Czech Republic	465,596	409,214
Costs of international transportation – passenger transportation	75,212	66,081
Other	707,622	575,176
Total estimated payables	1 248,430	1 050,471

Rentals for passenger coaches of foreign companies in the Czech Republic are billed retroactively for 12 months. Costs of international passenger transportation represent an amount payable arising from unsettled operating output by foreign railway organisations.

► IN CZK THOUSAND

Bank	Currency	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Interest rate	Collateral form
ČSOB	EUR	1,379,800	1,636,700	3M EURIBOR + 0,5	State guarantee
Celkem		1,379,800	1,636,700		

► 4.12 Bank Loans

Long-term Bank Loans

The Company 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 2008, EUR 30,581 thousand was repaid from the aggregate loan facility and the principal of EUR 61,484 thousand remains to be repaid between 2009 and 2014. The final maturity date of the loan is 25 November 2014.

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

Short-Term Bank Loans

As of 31 December 2008, the portion of long-term bank loans maturing within one year from the balance sheet date amounts to CZK 275,960 thousand. In addition, the Company records the drawing of overdraft loans with ČSOB which amount to CZK 627,111 thousand as of 31 December 2008 as part of short-term bank loans. The Company did not draw the overdraft facility with KB.

The amount of capitalised interest and relating fees on the long-term banking loan from ČSOB for the year ended 31 December 2008 was CZK 54,559 thousand, of which interest amounted to CZK 52,626 thousand and fees amounted to CZK 1,933 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. The amount of capitalised interest and relating fees on the loan from ČSOB for the year ended 31 December 2007 was CZK 99,615 thousand.

► 4.13 Income Taxes

► 4.13.1 Tax Payable

The Company reported a positive tax base of CZK 5,504,000 thousand for the year ended 31 December 2008. After the utilisation of the tax losses for the years 2003, 2004, and partially for 2005, the tax base was CZK 0. The tax losses amounted to CZK 800,927 thousand, CZK 2,175,107 thousand, CZK 2,793,616 thousand and CZK 2,878,475 thousand for the years ended 31 December 2007, 2006, 2005 and 2004, respectively (changes in the tax loss for 2004, 2005 and 2006 as compared to the disclosures provided in the notes to the financial statements for individual years were due to additional tax returns filed during the following years). The difference between the accounting loss and the tax base was predominantly due to the difference between depreciation for accounting and tax purposes.

In the year ended 31 December 2008, the Company paid taxes from individual tax bases relating to dividends from EUROFIMA for 2007 in the amount of CZK 531 thousand.

► 4.13.2 Deferred Taxation

The Company has determined a deferred tax asset as follows:

► IN CZK THOUSAND		
	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Tangible and intangible fixed assets	-563,771	-232,437
Provisions against fixed assets	319,446	0
Trade receivables	12,297	7,726
Inventory	1,162	2,564
Reserves	25,232	24,927
Unpaid contractual fines	-2,560	-20,944
Unpaid supplier contractual fines	1,478	3,127
Accumulated tax loss	859,971	1,960,375
Total deferred tax asset - unrecognised	653,255	1,745,338

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.

► 4.14. Accrued Expenses and Deferred Income

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

Deferred income predominantly includes rental income from the gas station leased to OMV, which was prepaid for 20 years.

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

► IN CZK THOUSAND	Year ended 31 December 2008			Year ended 31 December 2007		
	In-country	Cross-border	Total	In-country	Cross-border	Total
Income from freight transportation	0	0	0	5,892,668	10,328,810	16,221,478
Income from passenger transportation	4,468,436	1,759,281	6,227,717	4,456,674	1,811,336	6,268,010
Income from other transportation	32,252	0	32,252	58,452	0	58,452
Income from securing railway routes	8,686,536	0	8,686,536	11,382,453	0	11,382,453
Income from other services	1,548,136	0	1,548,136	2,331,640	0	2,331,640
Income from the sale of the Company's products and services	14,735,360	1,759,281	16,494,641	24,121,887	12,140,146	36,262,033

Cross-border income includes the share of the Company's 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 principally represents income from the services rendered to SŽDC and involves securing the management of operations of CZK 5,534,922 thousand (2007: CZK 4,720,292 thousand) and operability of CZK 3,151,614 thousand (2007: CZK 6,662,161 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.

► 4.16 Related Parties Transactions

► 4.16.1 Income Generated with Related Parties

► IN CZK THOUSAND					2008
Entity	Relation to the Company	Material	Services	Other income	Total
ČD – Telematika a. s.	Subsidiary	44	26,992	6,742	33,778
Traťová strojná společnost, a. s.	Subsidiary	44,210	9,529	118	53,857
Výzkumný Ústav Železniční, a. s.	Subsidiary	24	2,186	60	2,270
DPOV, a.s.	Subsidiary	177,879	14,474	2,156	194,509
ČD Cargo, a. s.	Subsidiary	1,120,704	442,891	23,117	1,586,712
Jídelní a lůžkové vozy, a. s.	Associate	0	10,872	0	10,872
Total		1,342,861	506,944	32,193	1,881,998

► IN CZK THOUSAND					2007
Entity	Relation to the Company	Material	Services	Other income	Total
ČD – Telematika a. s.	Subsidiary	237	14,666	41,014	55,917
Traťová strojná společnost, a. s.	Subsidiary	38,845	46,758	50	85,653
Výzkumný Ústav Železniční, a. s.	Subsidiary	10	6,187	32	6,229
DPOV, a.s.	Subsidiary	175,342	80,897	2,918	259,157
ČD Cargo, a. s.	Subsidiary	70,274	394,093	3,488	467,855
Jídelní a lůžkové vozy, a. s.	Associate	2	13,719	0	13,721
Total		284,710	556,320	47,502	888,532

*Income from other related parties, except the above noted, was deemed immaterial and was not disclosed.

► 4.16.2 Purchases from Related Parties

► IN CZK THOUSAND					2008
Entity	Relation to the Company	Purchase of material	Services	Other expenses	Total
ČD - Telematika a. s.	Subsidiary	32,044	491,489	58	523,591
Traťová strojná společnost, a. s.	Subsidiary	0	6,713	0	6,713
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	2,142	0	2,142
DPOV, a.s.	Subsidiary	28,733	450,614	191	479,538
ČD Cargo, a.s.	Subsidiary	5,267	114,955	4,176	124,398
Jídelní a lůžkové vozy, a. s.	Associate	0	155,069	0	155,069
Total		66,044	1,220,982	4,425	1,291,451

NOTES TO THE FINANCIAL STATEMENTS ČD, A.S.

► IN CZK THOUSAND					2007
Entity	Relation to the Company	Purchase of material	Services	Other expenses	Total
ČD – Telematika a. s.	Subsidiary	25,761	702,937	7	728,705
Traťová strojní společnost, a. s.	Subsidiary	0	20,400	0	20,400
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	4,673	0	4,673
DPOV, a.s.	Subsidiary	165,133	614,541	235	779,909
ČD Cargo, a. s.	Subsidiary	62	3,422	2,761	6,245
Jídelní a lůžkové vozy, a. s.	Associate	183	160,077	0	160,260
Total		191,139	1 506,050	3,003	1 700,192

*Purchases from other related parties, except for the above noted, are deemed immaterial and were not disclosed.

► 4.16.3 Purchases and Sales of Fixed Assets and Financial Assets with Related Parties

► IN CZK THOUSAND			SALES IN 2008	
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	36,600	
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	389	
DPOV, a.s.	Subsidiary	0	259	
ČD Cargo, a. s.	Subsidiary	0	50,912	
Jídelní a lůžkové vozy, a. s.	Associate	0	0	
Total		0	88,160	

► IN CZK THOUSAND			SALES IN 2007	
Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets	
ČD – Telematika a. s.	Subsidiary	0	31	
Traťová strojní společnost, a. s.	Subsidiary	0	13,353	
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	0	
DPOV, a.s.	Subsidiary	0	0	
ČD Cargo, a. s.	Subsidiary	0	153,538	
Jídelní a lůžkové vozy, a. s.	Associate	0	0	
Total		0	166,922	

► IN CZK THOUSAND			PURCHASES IN 2008	
Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets	
ČD – Telematika a. s.	Subsidiary	10,430	108,847	
Traťová strojní společnost, a. s.	Subsidiary	0	0	
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	0	
DPOV, a.s.	Subsidiary	0	11,080	
ČD Cargo, a. s.	Subsidiary	0	25,488	
Jídelní a lůžkové vozy, a. s.	Associate	0	5	
Total		10,430	145,420	

▶ IN CZK THOUSAND			PURCHASES IN 2007	
Entity	Relation to the Company	Intangible fixed assets	Tangible fixed assets	
ČD – Telematika a. s.	Subsidiary	85,181	186,327	
Tražová strojná společnost, a. s.	Subsidiary	0	13,099	
Výzkumný Ústav Železniční, a. s.	Subsidiary	0	2,610	
DPOV, a.s.	Subsidiary	0	53,375	
ČD Cargo, a. s.	Subsidiary	0	0	
Jídelní a lůžkové vozy, a. s.	Associate	0	0	
Total		85,181	255,411	

*Sales and purchases of fixed assets and financial assets with related parties, except for the above noted, were deemed immaterial and were not disclosed.

▶ 4.17. Consumed Purchases

▶ IN CZK THOUSAND		
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Consumed material	1,875,905	2,301,491
Consumed energy	1,848,325	3,209,216
Consumption of fuels	1,484,112	1,997,141
Total consumed purchases	5,208,342	7,507,848

▶ 4.18. Services

▶ IN CZK THOUSAND		
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Repairs and maintenance	2,798,760	4,496,355
Travel expenses	154,765	237,805
Telecommunications, data and postal services	625,408	720,679
Other rental	100,216	91,000
Use of railway routes, management of operations	1,781,739	5,762,721
Rent for railway coaches and wagons	483,890	1,060,048
Freight charges	219,335	418,338
Services of dining and sleeping carriages	155,069	160,077
Services associated with the use of buildings	239,688	275,805
Cleaning and shifting of coaches and wagons	342,167	338,505
Lease	130,864	299,399
Border area services	249,184	385,549
Advertising and promotion	247,193	47,019
Other services	1,022,938	997,407
Total	8,551,216	15,290,707

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

► 4.19. Change in Reserves and Provisions Relating to Operating Activities

► IN CZK THOUSAND		
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Change in reserves	6,877	42,115
Change in provisions against receivables	27,663	-7,731
Change in provisions against tangible fixed assets	1,447,794	13,456
Change in provisions against inventory	-6,542	-11,293
Total change in reserves and provisions relating to operating activities	1,475,792	36,547

► 4.20. Other Operating Income

► IN CZK THOUSAND		
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Settlement of losses from passenger transportation from the State budget including the grant for student fares	4,033,518	3,491,006
Settlement of losses from passenger transportation from the regional budgets including the grant for student fares	4,870,668	4,670,185
Other grants	398,017	448,803
Recoveries of receivables written off and transferred	276	86
Contractual penalties and default interest	12,643	34,183
Compensation for deficits and damage	66,577	138,917
Acquisition of material	158,688	268,313
Commissions from sales	60,768	56,910
Other	412,076	477,597
Total other operating income	10,013,231	9,586,000

► 4.21. Other Operating Expenses

► IN CZK THOUSAND		
	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Gifts	131	3
Contractual penalties and default interest	7,389	14,892
Other fines and penalties	272,620	8,008
Write-offs of receivables and transferred receivables	61,482	7,011
Deficits and damage relating to operating activities	58,746	40,099
Insurance	133,186	170,412
Employee uniforms and lump sum payments	105,945	124,561
Compensation for asset damage and impaired health	17,019	38,555
Membership allowances	10,376	14,866
Other operating charges	199,608	78,030
Total other operating expenses	866,502	496,437

► 4.22. Other Financial Income and Expenses

Other financial income and expenses largely include foreign exchange rate gains and losses, and interest on the loans after bringing tangible fixed assets into operations and interest on the loan from EUROFIMA.

► 4.23. 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 2008 and 2007:

► IN CZK THOUSAND					2008
	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	34,576	10,973,804	3,654,605	554,466	15,182,875
Management	109	184,254	53,563	5,674	243,491
Total	34,685	11,158,058	3,708,168	560,140	15,426,366

► IN CZK THOUSAND					2007
	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	53,302	14,833,325	4,987,036	729,320	20,549,681
Management	247	248,462	86,526	4,402	339,390
Total	53,549	15,081,787	5,073,562	733,722	20,889,071

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 5,940 thousand and CZK 2,959 thousand in 2008 and 2007, 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

In the year ended 31 December 2008, ČD a. s. concluded no lease or similar contract. No guarantee for the payables of ČD a. s. was provided in this regard.

In the year ended 31 December 2008, two bank guarantees were renewed for the appropriate performance of contracts, each in the amount of CZK 15 million, in respect of the contract entitled "Ordered Transportation between Pardubice and Liberec" with maturity on 12 December 2009 and the contract entitled "Ordered Transportation between Plzeň and Most" with maturity on 12 December 2009.

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 is linked to the volume of funds set out in the State budget to finance provable losses incurred in respect of passenger transportation.

At the financial statements date, the Company signed contracts for public service commitments for 2009 with the Central Bohemian and Olomouc regions. Other regions, except for the Ústí nad Labem region, provide prepayments of approximately 70 to 90 percent of the actual costs in 2008 or the prepayment determined by the Regional Authority for the beginning of 2009. The objective of the ongoing negotiation with the regional authorities regarding the conclusion of contracts or amendments to the contracts is to unify the contractual commitment of ČD, a.s., set a balanced relation between the transporter and the customer and predominantly establish the obligation to pay the provable losses from the operation of the regional railway transportation.

In addition, the Company seeks to secure the long-term nature of the contract and adjust the existing contracts for the commitment to reflect the changed legal conditions which will result from the implementation of Regulation 1370/2007. The contract for the public service commitment in railway passenger transportation was not concluded for 2009 as of the financial statements date. In January and February 2009, prepayments were provided pursuant to "Resolution of the Transportation Minister No. 247/2008-410-HO/1 dated 8 January 2009". In March and April 2009, prepayments were not provided.

The Company had operated railway routes before 30 June 2008 on the basis of a three year agreement put in place with SŽDC. The contract for operating railway routes was entered into at the end of 2005 for the years 2006-2008. The level of compensation (the Company's income) for operating railway routes is determined by amendment to the contract for each individual year. Since 1 July 2008, the Company has been solely responsible for operating the railway route (operations management on the railway route) according to the conditions of the contract concluded in June 2008.

The Company operates the railway route and it pays the fee to SŽDC for the use of the railways route as any other transporter. The amount of this fee (expense of the Company) is determined by the assessment of the Finance Ministry (as a maximum price) and by the conditions of SŽDC (Railway Route Statement). Since 1 January 2009, the price for the use of the railway route has significantly decreased for both passenger and freight transportation, by almost 20 percent.

► 7.2. Transactions with SŽDC

Expenses and Income

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2008 and 2007 were as follows:

► IN CZK THOUSAND	YEAR ENDED 31 DECEMBER 2008	
	Expenses	Income
Securing railway routes - management of operation		5,534,922
Securing railway routes - maintenance of operability		3,151,614
Use of railway routes - passenger transport	1,655,843	
Use of railway routes - freight transport		
Total	1,655,843	8,686,536

► IN CZK THOUSAND	YEAR ENDED 31 DECEMBER 2007	
	Expenses	Income
Securing railway routes - management of operation		4,720,292
Securing railway routes - maintenance of operability		6,662,161
Use of railway routes - passenger transport	1,595,008	
Use of railway routes - freight transport	4,093,395	
Total	5,688,403	11,382,453

Income from the securing of railway route is disclosed as sales of products and services in Note 4.15.

The costs of using railway routes are reported as services and are disclosed in Note 4.18.

Receivables and Payables

As of 31 December 2008, the Company reported receivables from and payables to SŽDC. The aggregate net value of the balances of these items was CZK 206,334 thousand in the year ended 31 December 2008. The payable is reported in 'Trade payables'.

The aggregate net value of balances of these items was CZK 33,618 thousand in the year ended 31 December 2007.

In addition, the Company reported a payable in 2008 arising from unbilled supplies from SŽDC reported as an estimated payable which amounted to CZK 120,008 thousand and CZK 216,377 thousand as of 31 December 2008 and 2007, respectively.

The settlement of railway operations for the second half of 2008 was recognised and reported as an estimated receivable of CZK 78,354 thousand as of 31 December 2008. In the year ended 31 December 2007, this item was part of trade receivables from SŽDC.

► **7.3. Post Balance Sheet Events**

In preparing the opening balance sheet as of 1 December 2007, ČD Cargo a.s. noted that the carrying amount of the non-cash investment for the period from 31 March 2007 to 30 November 2007 decreased by CZK 696,000 thousand. Pursuant to the identified change in the carrying amount of the non-cash investment, ČD Cargo a.s. ordered the non-cash investment valuation to be verified. The expert opinion prepared on 15 August 2008 indicated that the value of the non-cash investment after the verification was lower by CZK 306,000 thousand than the value determined in the original expert opinion prepared for the purpose of the formation of the company. To settle the payable of ČD, a. s. to ČD Cargo a.s. the value of which is CZK 306,000 thousand, it is proposed to recognise a receivable of ČD, a. s. from ČD Cargo a.s. of CZK 306,000 thousand, through the "effective" decrease in the share capital of ČD Cargo a.s. Thus, the recognised receivable together with selected existing receivables would become the subject of subsequent mutual offset. The first step in the decrease in the share capital of ČD Cargo a.s. will involve the resolution of the general meeting (resolution of ČD, a. s. as the sole shareholder) regarding the decrease in the share capital. This resolution is conditioned by the prior approval of the Steering Committee. Subsequent steps in the process of decreasing the share capital will be undertaken by ČD Cargo a.s.

The Company has completed the across-the-board external environmental audit based on which risk analyses were prepared for selected localities. These risk analyses are part of applications for subsidies from EU funds in respect of the removal of legacy environmental liabilities. In the first half-year of 2009, the entire environmental audit will be evaluated.

12 Post Balance Sheet Events

On 1 January 2009, the incumbency periods began for members of the Supervisory Board of ČD, a.s. elected by employees of the company – Vladislav Vokoun and Antonín Leitgeb.

Following Resolution No. 116 dated 26 January 2009 regarding the report on compliance with tasks assigned by the government with the deadline for the compliance between 1 December and 31 December 2008, the Czech government agreed with the change in the deadline for filing of documents by the transport minister: Filing of the proposal for dealing with the remaining activities of ČD, a.s. (Original deadline: 31 December 2008; New final deadline: 31 March 2009)

Following Resolution No. 161 dated 2 February 2009 regarding changes in members of the Steering Committee of ČD, a.s., the Czech government revoked the authorisation for activities in the Steering Committee of ČD, a.s. for Jiří Hodač and Vojtěch Kocourek as of 2 February 2009 and authorised Pavel Škvára and Zdeněk Žák to work in the Steering Committee of ČD, a.s. As of 3 February 2009, the government appointed Zdeněk Žák vice-chairman of the Steering Committee of ČD, a.s.

At its meeting held on 18 February 2009, the Steering Committee of ČD, a.s. approved the written announcement of Vojtěch Kocourek about his resignation from the position of the chairman and member of the Supervisory Board of ČD, a.s., recalled Jan Černožský from the position of the member of the Supervisory Board of ČD, a.s. and appointed Zdeněk Žák and Pavel Škvára members of the Supervisory Board of ČD, a.s. with effect from 19 February 2009. At its meeting held on 19 February 2009, the Supervisory Board appointed Zdeněk Žák to the position of the chairman.

As of 16 March, Petr Moravec resigned from the position of the Deputy CEO for Passenger Transport. As of 17 March 2009, the Board of Directors of ČD, a.s. appointed Antonín Blažek to the position of the Deputy CEO for Passenger Transport.

Following Resolution No. 505 dated 20 April 2009 regarding the authorisation for work in the Steering Committee of ČD, a.s. and appointment of the vice-chairman of the committee, the Czech government revoked the authorisation for work in the Steering Committee of ČD, a.s. for Petr Šlegr and Zdeněk Žák with effect from 20 April 2009 and authorised Eduard Havel to work in the Steering Committee with effect from 21 April 2009. In addition, the government appointed Pavel Škvára vice-chairman of the Steering Committee of ČD, a.s. as of 21 April 2009.

Following Resolution No. 555 dated 27 April 2009 regarding changes in the composition of the Steering Committee of ČD, a.s., the Czech government authorised Roman Boček to work in the Steering Committee of ČD, a.s. with effect from 27 April 2009 and appointed Roman Boček chairman of the Steering Committee of ČD, a.s. with effect from 27 April 2009.

At its meeting held on 28 April 2009, the Steering Committee of ČD, a.s. recalled Zdeněk Žák from the position of the chairman and member of the Supervisory Board of ČD, a.s. as of 28 April 2009.

Following Resolution No. 462 dated 20 April 2009 regarding compliance with tasks assigned by the government with the deadline for compliance between 1 March and 31 March 2009, the Czech government agreed with the change in the deadline for filing of documents by the transport minister: Filing of the proposal for dealing with the remaining activities of ČD, a.s. (Original deadline: 31 December 2008; Extended deadline: 31 March 2009; New final deadline: 31 May 2009)

As of 16 April 2009, Petr Moravec resigned from the position of member of the Board Directors of ČD, a.s. As of 13 May 2009, Milan J. Ruttner resigned from the position of the Deputy CEO for Human Resources. As of 14 May 2009, the Supervisory Board of ČD, a.s. appointed Antonín Blažek member of the Board of Directors. As of 20 May 2009, the Board of Directors of ČD, a.s. appointed Pavel Švagr to the position of the Deputy CEO for Human Resources.

Following Resolution No. 686 dated 1 June 2009 regarding the application addressed to the budget committee of the Chamber of Deputies of the Czech Parliament for the change in binding specific indicators of the state budget of the Czech Republic, the chapter of the Transport Ministry, the Czech Government charged the Transport Minister with providing a grant to individual regions for the additional funding for the availability of the public railway passenger transport infrastructure.

At its extraordinary meeting held on 4 June 2009, the Steering Committee of ČD, a.s. appointed Jaroslav Král member of the Supervisory Board of ČD, a.s.

13 Declaration of the Board of Directors

Following Resolution No. 686/2004 approved at its meeting of 27 January 2004, the Board of Directors of České dráhy, a.s. (hereinafter "Company") decided that the Company will not prepare a Report on Relations between the Controlling and Controlled Entity and on the Relationship between the Controlled Entity and Other Entities Controlled by the Same Controlling Entity for the Year Ended 31 December 2003 (hereinafter the "Related Parties Report"). To date, the Board of Directors has not decided to change this resolution.

In the opinion of the Company, if no controlling contract was concluded, the obligation to prepare a Related Parties Report within three months from the end of the reporting period relates only to the statutory bodies of controlled entities associated in groups where relations are subject to uniform management. Such Related Parties Reports comprise all of the relations within the group to which the relevant controlled entity is included.

The arrangement where the Czech Republic takes the position of a controlling entity is not considered a group because a group consists only of a controlling entity and controlled entities whose enterprises belong to the group. An enterprise is a set of tangible, personal and intangible components of business activities. An enterprise contains objects, rights and other property values owned by an entrepreneur and used for the operation of the enterprise.

14 List of Used Abbreviations

CAPEX	Capital expenditures
CER	Community of European Railways
ČD	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
ČD-T	ČD - Telematika a.s.
EC	Passenger train category of higher quality (EuroCity)
EUROFIMA	European Company for the Financing of Railroad Rolling Stock
ETCS	European Train Control System
GSM-R	Global System for Mobile Communications-Railways
GVD	Train transport flowchart
Hrtkm	Gross tonne kilometres (the total of products of transport weights of trains and transport distance)
IC	Passenger train category of higher quality (InterCity)
IDS	Integrated transport system
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 personal cash desk
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
SŽDC	Správa železniční dopravní cesty, state organisation
TSI	Technical specifications of interoperability
TSS	Traťová strojní společnost
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

15 Identification and Contact information

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