

Annual Report of ČD Cargo, a.s.
For the Year Ended
31 December 2009

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1 Mission, Vision and Goals

The joint stock company ČD Cargo, a.s. (hereinafter also referred to as the “Company”) is the largest Czech freight railway transport operator providing for the transportation needs of its business partners. The Company provides transportation of industrial and agricultural commodities, raw materials, fuels, goods, containers and oversized loads. The Company leases freight cars and provides rail siding services and other transportation services. The future activities of ČD Cargo, a.s. will be focused on investing in the development of infrastructure to support the linkage of industrial areas with railway transport by building combined transport terminals and logistics centres.

The business activities of ČD Cargo, a.s. contribute to the fulfilment of the goals of the Czech transportation policy in respect of reducing the environmental impacts of transportation in the interest of securing sustainable development. For ČD Cargo, a.s., a unified internal EU market and the opening of the international railway transport market have become an incentive for seeking new business opportunities. With its volume of transport, ČD Cargo, a.s. is one of the ten most significant railway companies in Europe and one of the five largest railway companies in the EU. The Company’s strategic goal is to improve its leading position and to be the driving force on the freight transport market in the Czech Republic and the Central European region. In 2009, the Company obtained a security clearing authorisation from the National Security Office in Prague to handle confidential information. Following the implementation of the quality management system, the Company received the ISO 9001:2000 quality certificate in the area of freight transport.

2 Company Profile

ČD Cargo, a.s. was formed on 1 December 2007 following the investment of part of the business of České dráhy. The sole founder and owner is the joint stock company České dráhy. ČD Cargo, a.s. is a subsidiary of České dráhy, a.s. specialised in providing freight transport.

Name, Address and Identification of the Company

Business entity: ČD Cargo, a.s.

Registered office: Prague 7, Holešovice, Jankovcova 1569/2c, 170 00

Corporate ID: 28196678

Recorded in the Register of Companies held by the Municipal Court in Prague, File B, Insert 12844.

Basic Characteristics of the Company

ČD Cargo, a.s., provides railway transport of goods including comprehensive related services. The goal of the Company is to improve its leading position and to be the driving force on the freight transport market in the Czech Republic and the Central European region.

The principal business activity – railway transportation of goods – is structured by the nature of the flow of goods as follows:

- Local;
- Export;
- Import; and
- Transit.

Pursuant to the structure referred to above, it is appropriate to structure principal activities by commodities, i.e. by the nature of transported goods with respect to capacity requirements, requirements for vehicles, demands for operating technologies or special care of shipments:

- Transportation of solid fuels;
- Transportation of ores, metals and machinery products;
- Transportation of chemical products and liquid fuels;
- Transportation of construction material;
- Transportation of wood and paper;
- Transportation of food and agricultural products;

- Combined transportation – logistical solutions for transportation of shipments using intermodal transportation units, predominantly containers;
- Automotive; and
- Transportation of other non-classified commodities.

3 Basic Economic Indicators

BASIC ECONOMIC INDICATORS

Indicator	2009	2008**)	2007 *)	Index 09/08
Structure of assets and liabilities (CZK million)				
Total assets	15 672	15 987	14 142	0.98
Fixed assets	12 424	12 282	10 392	1.01
Equity	8 230	8 282	8 999	0.99
Structure of profit/(loss) (CZK million)				
Operating profit	8	593	1 925	0.01
Profit before tax	-378	474	1 394	-0.80
Structure of revenues (CZK million)				
Total revenues	15 003	17 800	17 772	0.84
Sales of own products and services	13 272	17 109	17 661	0.78
Financial indicators				
Turnover of assets (total revenues/total assets)	0.96	1.11	1.26	0.86
Indebtedness (liabilities/total assets)	0.47	0.48	0.36	0.99
Liquidity (current financial assets/current liabilities)	0.04	0.05	0.05	0.81
Employees				
Average headcount recalculated to FTE (number of employees)	10 378	11 394	11 807	0.91
Total revenue per employee (CZK/employee)	1 445 675	1 562 209	1 505 224	0.93
Added value per employee (CZK/employee)	542 148	561 505	625 180	0.97

*) Figures for ČD, a. s. – areas of activities: freight transport (January-November/2007) and for ČD Cargo, a. s. (December 2007). The statement of basic economic indicators presents a short-term banking loan (overdraft) for December 2007 on the liabilities side; in the statements prepared by ČD Cargo, a.s., this short-term loan is presented on the assets side with a negative value. This presentation method was applied by the Company due to the fact that no year-end financial statements were prepared for December 2007. The relevant period is part of the reporting period from 1 December 2007 to 31 December 2008.

***) Figures relate to the 2008 calendar year, they do not correspond with the accounting values reported for the reporting period ended 31 December 2008.

4 Major Events in 2009

Summary of Major Events in 2009

- Jan 2009 As of 1 January, the assessment of the Finance Ministry decreased the fee for using SŽDC's railway route by 20%.
- Feb 2009 Supplies of modernised Talls series vehicles were completed.
- Mar 2009 Transport of cars from Hyundai Motor Manufacturing Czech (HMMC) in Nošovice started.
- Mar 2009 On 25 March, measurement of the actual consumption of electricity in ČD Cargo locomotives was started (specifically the 230.028 locomotive).
- Mar 2009 The Company transported nuclear fuel for the Temelín power plant.
- Apr 2009 On 9 April, the Company used the multi-system Siemens ES 64 F4 150 locomotive from the German 189 Mitsui Dispolok series for ČD Cargo container trains between Děčín – Praha-Uhřetěves and back as part of testing on the SŽDC network.
- Apr 2009 The external ISO 9001:2000 quality audit was successfully completed.
- May 2009 ČD Cargo was presented with its own market stall at the Transport Logistic fair trade in Munich which was held between 12 and 15 May.
- Jun 2009 ČD Cargo participated in the tenth Czech Raildays professional trade fair between 16 and 18 June in Ostrava where, among other things, the 753.757 ČD Cargo locomotive was displayed.
- Jun 2009 The project entitled "Modelling of Processes and Electronic ISO Documentation" was initiated in respect of the sales and operating issues of ČD Cargo.
- Jul 2009 Part of the EULEX (KFOR) mission from Kosovo was returned in cooperation with ČD Cargo.
- Aug 2009 The Polish railway authority, UTK, granted a railway transportation licence to ČD Cargo Koleje Czeskie, sp. z o.o.
- Aug 2009 The reloading of steel scrolls for the car producer Hyundai Motor Manufacturing Czech (HMMC) at the Hysco industrial track in Nošovice started.
- Aug 2009 Three new forklifts with a bearing capacity of 2.5 tonnes were delivered to ČD Cargo.
- Sept 2009 ČD Cargo acquired the AEO international customs certificate (Authorised Economic Operator).

- Oct 2009 On 19 October, electric railway operations were started between Zábřeh na Moravě and Šumperk.
- Nov 2009 On 15 November, a ground collapse was reported in the renovated tunnel in Jablunkovský průsmyk on the track between Český Těšín and Čadca. This accident resulted in significant and long-term complications in both passenger and freight transportation on this important track.
- Dec 2009 On 10 December, regular electrical operations were started on the track between Lysá nad Labem and Milovice, and operations on the track between Šatov and Znojmo were started three days later.

5 Statutory Bodies and Management of the Company

ČD Cargo, a.s. is wholly owned by České dráhy, a.s. which acts in the capacity of the General Meeting, i.e. the Company's supreme body. The Company's statutory body is the Board of Directors which comprises five members; the Company's oversight body is the Supervisory Board which has six members. The Company's advisory and initiative body is the Administration Board which comprises three members who are elected by the General Meeting based on nominations by the Ministry of Transport of the Czech Republic. Pursuant to Act No. 93/2009 Coll., on Auditors, the Company established a three-member obligatory body of the Company, the Audit Committee, as of 1 October 2009. Its members were appointed by the General Meeting as of 15 December 2009.

The Company has established the Chief Executive Officer and the Executive Director functions. The Chief Executive Officer and the Executive Director are not considered company bodies.

Board of Directors

1. Josef Bazala

Chairman of the Board of Directors (since 1 December 2007), age: 53

Josef Bazala graduated from the Faculty of Operations and Economics of the Transport University in Žilina where he majored in transportation operations and economics. In 1981, he joined the former Československé státní dráhy (Czechoslovak State Railways) where he held various positions relating to railway operations and was responsible for the management of passenger transport services. Upon the establishment of České dráhy, s.o. (the State Organisation of Czech Railways) in 1993, Josef Bazala was appointed Senior Manager of the Trade and Operations Division. In 1995, he acted in the capacity of the Chief Executive Officer of ČD for a period of three months. From 1996 to 2003, Mr Bazala was employed by Spedi-Trans Praha, s.r.o. In 2003, he returned to České dráhy where he acted in the capacity of First Deputy CEO and a member of the Board of Directors. From 9 May 2005 to 29 January 2008, he held the position of the Chairman of the Board of Directors of ČD, a.s.; from 29 January 2008 to 8 December 2009, he was a member of the Board of Directors of ČD, a.s., and between 11 May 2005 and 31 January 2008, he acted as the Chief Executive Officer of ČD, a.s. Since

1 February 2008, Josef Bazala has held the position of the Chief Executive Officer of ČD Cargo, a.s.

2. Petr Žaluda

Member of the Board of Directors (from 1 December 2007 to 30 November 2009), age: 43

Petr Žaluda graduated from the Brno University of Technology; he completed study programmes at Utrecht University and Sheffield Business School. He worked in Stork Demtec as a Country Manager. From 1993 to 1996, he acted as a Branch Office Manager in Ernst & Young. In 1998, Petr Žaluda became Chief Executive Director and Chairman of the Board of Directors at Winterthur Pension Fund. Between 2002 and 2006, he managed the Winterthur Group in the Czech Republic and Slovakia. In 2007, Petr Žaluda became the Chief Executive Officer of AXA acting as the Country CEO for the Czech Republic and Slovakia. Since 1 February 2008, he has held the position of the Chairman of the Board of Directors and the Chief Executive Officer of ČD, a.s.

3. Václav Andrýsek

Member of the Board of Directors (since 8 July 2008), age: 36

Václav Andrýsek graduated from the Faculty of Economics of VŠB – Technical University of Ostrava, majoring in Sales and Marketing. In 2009, he completed his MBA studies at the same university. From 1997 to 2001, he acted as a member of the Board of Directors and Chief Financial Officer in ICEC – LEASING, a.s.; between 2002 and 2007, he held the position of the Logistics Director in BorsodChem MCHZ, s.r.o.; and from 2007 to 2008, he was the Chairman of the Board of Directors of NH-TRANS, S.E. Since 16 June 2008, Václav Andrýsek has held the position of the Executive Director of ČD Cargo, a.s.

4. Rodan Šenekl

Member of the Board of Directors (since 1 December 2007), age: 52

Rodan Šenekl graduated from the Transport University in Žilina, majoring in railway transport operations and economics. In 1983, he joined the former Československé státní dráhy (Czechoslovak State Railways) where he held various positions in railway operations and was in charge of the IT team. From 1992 to 2005, he worked: as a Sales Manager of CAS Inc. Canada; as a Trade Director of ICD spol. s r.o.; as a Director and Statutory Executive of Container Train Bohemia, s.r.o., Praha; as a Manager of the Praha Žižkov transshipment station of ČSKD Intrans; as a Trade Director of CID International; and as a Director and Statutory

Executive of European Rail Shuttle, s.r.o., Prague. From 7 June 2005 to 31 January 2008, he was a member of the Board of Directors of ČD, a.s; between 1 June 2005 and 30 November 2007, he held the position of the Deputy Chief Executive Officer for freight transportation of ČD, a.s. Since 1 December 2007, Rodan Šenekl has acted as the Trade Director of ČD Cargo, a.s.

5. Bogdan Heczko

Member of the Board of Directors (since 1 December 2007), age: 38

Bogdan Heczko graduated from the Management Faculty of the Technical University of Žilina – University of Transport and Communications, majoring in transportation information technology. In 1997, he started to work as an analyst – programmer at AUTEL, a.s., Třinec. From 1998 to 1999, he worked as a consultant and as a manager of the Enterprise Resource Planning Systems (ERP) Division at AUTEL, a.s., Ostrava. From 2000 to 2002, he held the latter position in Iteuro, a.s., Ostrava where he acted as the Director and Chairman of the Board of Directors between 2002 and 2007. Since 1 December 2007, Bogdan Heczko has held the position of Chief Financial Officer of ČD Cargo, a.s.

Supervisory Board

1. Oldřich Vojíř

Chairman of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age: 48

Oldřich Vojíř graduated from the Faculty of Education of the Jan Evangelista Purkyně University in Ústí nad Labem and completed doctoral studies at the Transport Faculty of the University of Pardubice. He was a teacher at the Secondary School of Economics in Most. Between 1992 and 1996, he worked as a Director of the Secondary Vocational School in Meziboří. In 1994, he was elected to the Town Council of Most. He worked as a member of the Town Council until 2002. He was a member of the Supervisory Board of the Czech National Property Fund from 1999 to 2006, a member of the Supervisory Board of ČEZ, a. s. from 2000 to 2003, the Chairman of the Board of Directors of Dopravní podnik měst Most a Litvínova, a.s. and the Chairman of the Board of Directors of KRUŠNOHORSKÁ INVESTORSKÁ, a.s. from 2003 to 2007. He has been the Chairman of the Board of Directors of PRVNÍ MOSTECKÁ, a. s. since 2001 and a member of the Administration Board of Institut pro rozvoj energetiky, o.p.s. since 2005. In the years 1996, 1998, 2002 and 2006 he was re-elected to the Chamber of Deputies of the Parliament of the Czech Republic. He is a member of the Economic Committee of the Chamber of Deputies of the Parliament of the Czech Republic; from 2002 to 2006, he acted as Deputy Chairman of the Committee; and on 13 September 2006, he has become its Chairman. Oldřich Vojíř is a member of the Permanent Delegation of the Parliament of the Czech Republic with the Council of Europe.

2. Milan Špaček

Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age 57

Milan Špaček graduated from the Faculty of Medicine of the UJEP University (at present Masaryk University) specialising in paediatrics. In 1980, he joined the Znojmo hospital as a paediatrician. From 1992 to 1997, he acted as the Director of the Children Centre in Znojmo. He was a member of the Administration Board of the General Health Insurance Company in Znojmo from 1992 to 1996. Since 1994, he has been a member of the Town Council of Znojmo. In 1996, he was elected a senator from Znojmo electoral district no. 54, he was the Chairman of the Senate Standing Committee for Expatriates and the Vice Chairman of the Defence and

Security Committee. Between 2003 and 2004, he held the position of the First Deputy Health Minister and was a member of the Administration Board of the Trauma Hospital in Brno. In 2004, he was re-elected a senator for the Znojensko region in a by-election and held the positions of Vice Chairman of the Healthcare and Social Affairs Committee and Vice Chairman of the Senate Standing Committee for Media. From 2000 to 2003, he worked as a member of the Regional Council of the South Moravian Region. At present, Milan Špaček is the Director of the Children Centre in Znojmo; he is a member of the Town Council of Znojmo and an advisor to Petr Pithart, Vice-Chairman of the Senate of the Czech Republic, Miroslav Kalousek and Adolf Jílek, senator.

3. Libor Joukl

Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age: 43

Libor Joukl graduated from the Faculty of Mechanical Engineering of the Brno University of Technology. In 1989, he joined ŽĎAS in Žďár nad Sázavou, dealing with plant equipment construction and design. From 1991 to 1992, he worked as an independent agent for the PENTA Žďár nad Sázavou advertising agency. Since 1992, he has been self-employed. Between 1994 and 2000, he acted as Production Manager of JMZ-CATONEX s.r.o. In 2000, he became a Statutory Executive and Director of APOLY s.r.o. Přebyslav. Since 2002, he has been a member of the Town Council of Přebyslav. Since 2004, he has been a member of the Regional Council of Vysočina; in November 2008, he became the Deputy Governor of the Vysočina Region. He is a member of the Vysočina Regional Council Board.

4. Michal Nebeský

Member of the Supervisory Board (since 1 December 2008), age: 42

Michal Nebeský graduated from the Faculty of International Relations and Finance of the University of Economics, Prague. In 1991, he joined Citibank where he was appointed Risk Manager for the Czech Republic and Risk Manager for Central Europe in 2003 and 2005, respectively. Since 1 September 2008, he has held the position of Deputy Chief Executive Officer for economics in ČD, a.s.; and since 12 September 2008, Michal Nebeský has been a member of the Board of Directors of ČD, a.s. He has been the Chairman of the Supervisory Board of Výzkumný ústav železniční, a.s. and the Chairman of the Supervisory Board of DPOV, a.s. since 2008 and the Chairman of the Supervisory Board of ČD-Telematika, a.s. since 2009.

5. Radek Nekola

Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008 – for the second functional period, he was appointed by the Company's employees), age: 45

Radek Nekola graduated from the Secondary Technical Vocational School of Prague and the Secondary School of Transport in Prague, specialising in operations management. In 1981, he joined the former Československé státní dráhy as a motor vehicles machinist in the Railway Vehicles Depot in Ústí nad Labem. On 1 December 2007, he joined ČD Cargo, a.s.; he is empowered, in the long-term, to act as a Chairman of the ČD Cargo Committee of the Railway Workers Union (OSŽ). Radek Nekola is also the Deputy Chairman of the Railway Workers Union (OSŽ).

6. Jindřich Nohal

Member of the Supervisory Board (from 1 December 2008, elected by the Company's employees), age: 56

Jindřich Nohal graduated from the Secondary Railway School in Česká Třebová specialising in transportation. In 1972, he joined the former Československé státní dráhy (Czechoslovak State Railways), as a train dispatcher in the Nymburk-město and Třinec railway stations. From 1980 to 2001, he worked as a train dispatcher and operations dispatcher; in 2001, he became a dispatch manager. Since 1 December 2007, he has acted as a central dispatcher – shift manager in the Operational Management Department of ČD Cargo, a.s. Jindřich Nohal is the Chairman of the basic organisation of the Railway Workers Union (OSŽ).

Administration Board

1. Miroslav Dvořák

Chairman of the Administration Board (from 1 December 2007 to 30 November 2009), age: 39

Miroslav Dvořák graduated from the Faculty of Economics and Management of the Czech University of Life Sciences Prague, specialising in business, finance and business law. He started his career as an Asset Management Deputy Director in Československá obchodní banka, a.s. from 1992 to 1997. Between 1997 and 2001, he acted as the Director and Chairman of the Board of Directors of Patria Asset Management, a.s. From 2002, he held the position of Senior Director of the Private Banking division in Československá obchodní banka, a.s. On 1 June 2007, he was appointed the Chief Executive Officer of Letiště Praha, s.p. (state owned-company); on 1 December 2008, he was appointed to the same position at Letiště Praha, a.s. (joint stock company) where he also acts as the Chairman of the Board of Directors. Since 19 October 2009, he has been the Chairman of the Board of Directors of České aerolinie, a.s. (Czech Airlines) and on 1 November 2009, he was appointed the President of this company.

2. Gustav Slamečka

Member of the Administration Board (from 1 December 2007, he resigned on 11 May 2009), age: 50

Gustáv Slamečka graduated from the Faculty of Economics and Tourism of the Banská Bystrica University of Economics, the Czech Management Centre and the University of Pittsburgh. From 1984 to 1992, he held various managerial positions in Jednota Nitra, the Trade Institute in Nitra and the Slovak Trade Inspectorate in Nitra. Between 1992 and 1994, he acted as the Executive Director of Intergames, s. r.o. and Nevada s. r.o. From 1995 to 1996, he was employed as a manager in charge of the finance department and cooperation with the Council of Europe at the Institute of Approximation of Law of the Ministry of Justice of the Slovak Republic. From 1996, he held various managerial positions in ABN-AMRO Bank. From May 2007 to February 2009, Gustáv Slamečka was the Director of the State Fund of Transport Infrastructure. In February 2009, he was appointed Deputy Minister of Transportation and in May 2009, he was appointed Czech Minister of Transportation. In relation to this position, he resigned from the position of the member of the Administration Board of the Company.

3. Petr Vlasák

Member of the Administration Board (since 21 May 2008), age: 40

Petr Vlasák graduated from the Faculty of Mathematics and Physics of Charles University in Prague, majoring in mathematical modelling. In 2003, he was awarded the CFA (Chartered Financial Analyst) degree. He held various positions in the financial Group of ČSOB, a.s. including a member of the Board of Directors of ČSOB Asset Management, a.s., the Chairman of the Supervisory Board of ČSOB Investiční společnost, a.s. and the Executive Director of the Private Banking division. In 2007, he joined Letiště Praha where he has acted as the Senior Director for Finance and Corporate Affairs since 1 June 2008 and the First Vice Chairman of the Board of Directors since 14 November 2008.

4. Petr Žaluda

Chairman of the Administration Board (member since 1 December 2009, Chairman since 15 February 2010), age: 43

Petr Žaluda graduated from the Brno University of Technology; he completed study programmes at Utrecht University and Sheffield Business School. He worked in Stork Demtec as a Country Manager. From 1993 to 1996, he acted as a Branch Office Manager in Ernst & Young. In 1998, Petr Žaluda became Chief Executive Director and Chairman of the Board of Directors at Winterthur Pension Fund. Between 2002 and 2006, he managed the Winterthur Group in the Czech Republic and Slovakia. In 2007, Petr Žaluda became the Chief Executive Officer of AXA acting as the Country CEO for the Czech Republic and Slovakia. Since 1 February 2008, he has held the position of the Chairman of the Board of Directors and the Chief Executive Officer of ČD, a.s.

5. Roman Boček

Member of the Administration Board (since 1 December 2009), age: 40

Roman Boček graduated from the Faculty of Education of the Masaryk University in Brno. He completed his MBA studies at the Brno International Business School, the bankruptcy trustee training and management studies at the Business School at the Brno University of Technology. From 1990, he was a private businessman. Between 1997 and 1998, he was a member of the Board of Directors in KOTVA joint stock company and a member of the Board of Directors of its subsidiary Merkuria plus, a. s. In these companies, Roman Boček held managerial positions – he acted as the Finance Director, the Finance and HR Director and Deputy CEO. In 1999, he

was appointed the CEO of KOTVA. Between 2001 and 2003, he held managerial positions at Real Spektrum, a. s., INTERTRADE CZ, a. s., and CASTIGA, a. s. In 2003, he was a bankruptcy trustee in Livewell, s. r. o. and OMNIHO-PLAST, spol. s r. o. Between 2003 and 2008, he was the Chairman of the Board of Directors and CEO of Oblastní nemocnice Příbram, a. s. In January 2009, he was appointed a senior manager at the Czech Ministry of Transportation and the Deputy Minister for the EU administrative funds section in May 2009.

Audit Committee

1. Oldřich Vojří

Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 48

Oldřich Vojří graduated from the Faculty of Education of the Jan Evangelista Purkyně University in Ústí nad Labem and completed doctoral studies at the Transport Faculty of the University of Pardubice. He was a teacher at the Secondary School of Economics in Most. Between 1992 and 1996, he worked as a Director of the Secondary Vocational School in Meziboří. In 1994, he was elected to the Town Council of Most. He worked as a member of the Town Council until 2002. He was a member of the Supervisory Board of the Czech National Property Fund from 1999 to 2006, a member of the Supervisory Board of ČEZ, a.s. from 2000 to 2003, the Chairman of the Board of Directors of Dopravní podnik měst Most a Litvínova, a.s. and the Chairman of the Board of Directors of KRUŠNOHORSKÁ INVESTORSKÁ, a.s. from 2003 to 2007. He has been the Chairman of the Board of Directors of PRVNÍ MOSTECKÁ, a.s. since 2001 and a member of the Administrative Board of Institut pro rozvoj energetiky, o.p.s. In the years 1996, 1998, 2002 and 2006 he was re-elected to the Chamber of Deputies of the Parliament of the Czech Republic. He is a member of the Economic Committee of the Chamber of Deputies of the Parliament of the Czech Republic; from 2002 to 2006, he acted as Deputy Chairman of the Committee; and on 13 September 2006, he became its Chairman. Oldřich Vojří is a member of the Permanent Delegation of the Parliament of the Czech Republic with the Council of Europe.

2. Libor Joukl

Member of the Audit Committee (since 15 December 2009), age: 43

Libor Joukl graduated from the Faculty of Mechanical Engineering of the Brno University of Technology. In 1989, he joined ŽĎAS in Žďár nad Sázavou, dealing with plant equipment construction and design. From 1991 to 1992, he worked as an independent agent for the PENTA Žďár nad Sázavou advertising agency. Since 1992, he has been self-employed. Between 1994 and 2000, he acted as Production Manager of JMZ-CATONEX s.r.o. In 2000, he became a Statutory Executive and Director of APOLY s.r.o. Příbyslav. Since 2002, he has been a member of the Town Council of Příbyslav. He was a member of the Supervisory Board of MERO, a.s., Kralupy nad Vltavou from 2003 to 2006 and its Vice Chairman from 2004 to 2006.

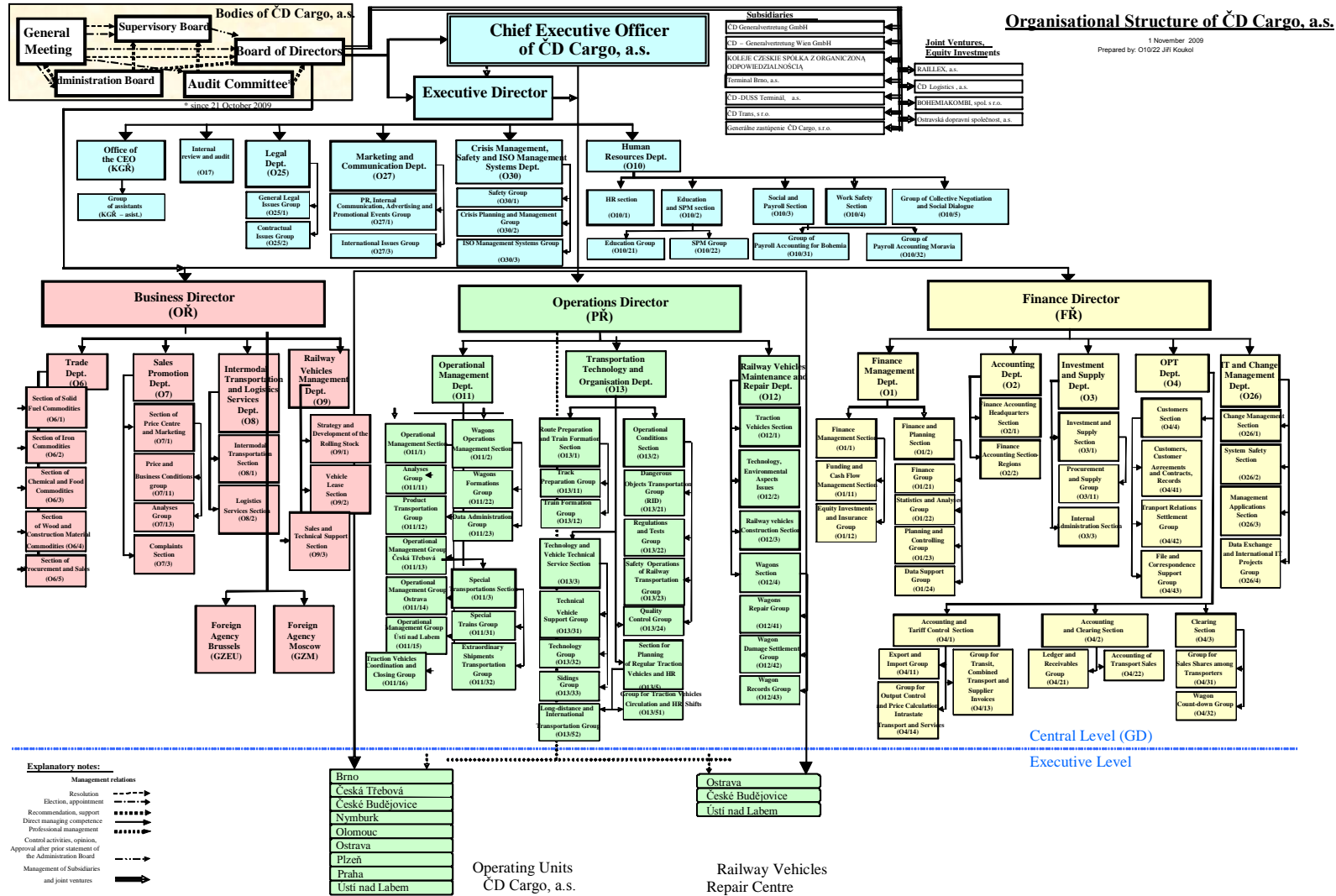
Since 2004, he has been a member of the Regional Council of Vysočina; in November 2008, he became the Deputy Governor of the Vysočina Region for transportation and property. He is a member of the Vysočina Regional Council Board.

3. Miroslav Zámečník

Member of the Audit Committee (since 15 December 2009), age: 47

Miroslav Zámečník graduated from the University of Economics in Prague and completed the international affairs studies at the Georgetown University in Washington. He completed several insolvency and financial analysis programmes at the World Bank. Between 1984 and 1990, he worked as an economics journalist in the Czech Press Agency. From 1990 to 1993, he worked as an advisor and spokesman of the federal Minister of Finance, Václav Klaus, advisor to the president Václav Havel and manager in the Centre for the Economic Analysis of the President's Office, and an advisor to the Minister of Trade and Industry, Vladimír Dlouhý. Between 1994 and 1998, he was a representative of the Czech Republic in the World Bank where he, among others, supported the financing of a number of projects from the funds of International Finance Corporation. From 1998 to 1999, he provided advisory to the Ministry of Finance with respect to the restructuring of banks and companies. Since 2001, he has worked as an independent consultant in investment banking, sales and restructuring of industrial companies. He participated in the preparation of the Bankruptcy Act and he worked on the healthcare system reform together with the Association of Health Insurers. In addition, he was appointed to statutory bodies of leading industrial companies which were included in the revitalisation programme. Between January 2009 and 14 September 2009, he was a member of the National Economic Council of the Czech Government.

6 Organisational Structure of ČD Cargo, a. s. at 31 December 2009



7 Report of the Board of Directors on the Business Activities of ČD Cargo, a. s. and the Balance of its Assets

The Board of Directors of ČD Cargo, a. s. has issued the following Report on the Company's business activities and the balance of its assets.

Freight Transport Operations

Freight Transportation

In 2009, the trains of ČD Cargo, a. s. transported 68.3 million tonnes of goods, which is approximately 20% less than in 2008; a similar year-on-year decrease was noted in the transportation output which amounts to 12.6 billion of tonne-kilometres. Nearly all European railway transportation companies, including former national railway transportation companies as well as a number of private companies, faced a similar decrease. 2009 was also a year of fierce competition. The Company had to compete with road transportation companies and other railway transportation companies for a decreased volume of goods. Despite the difficult conditions, the Company maintained fifth place on the EU transportation market, with a difference of only approximately 1 million tonnes from SNCF Fret which, according to UIC results, is in the fourth place. The Company's aggregate sales and revenues amounted to CZK 15 billion in 2009. As compared to the prior year, the Company thus generated CZK 2.8 billion less in sales, which represents a year-on-year decrease of 15.7%. In 2009, the Company's business activities were significantly influenced by the impacts of the economic or sales crisis. The drop in the overall transportation market was caused by the drop in demand from domestic and foreign customers, ie the transportation of raw material intended for processing, as well as in relation to sales of products from production plants. As a transportation company within the European transportation market, the Company is directly dependant on the state of the Czech, as well as foreign, economies. The international transportation segment (import, export and transit) constitutes the majority of all transportation effected by the Company, while in-country transportation accounts for 40%. The Company's transportation results appropriately reflect the drop in industrial production in the Czech Republic and in other European countries.

The supplies of iron ore to the steelworks have been significantly restricted. The year-on-year decrease in the transportation of iron ore noted in the first three months amounted to approximately 60%. The influx of other raw materials necessary for metallurgical production, such as black coal, coke, metal scrap or dolomite was also suspended. At the same time, the Company managed to realise a number of transportation campaigns, including cooperation with EVRAZ Vítkovice Steel, transportation of metal sheets for a customer from the Middle East, etc. Based on an agreement with partners, the Company also introduced a new ADRIA PLUS system train from the Ostrava region to Rijeka across Austria, which transported 13 thousand tonnes of reinforcing bars in April. Around the middle of the year, there was a positive turn – the transportation of iron ore increased and thanks to an active business policy, the Company gained new transportation orders. In cooperation with our business partners, we also managed to reverse the unfavourable proportion of transportation of metallurgical products of US STEEL.

The recession gradually showed an impact in all business segments of ČD Cargo, a. s., including the transport of building materials. Due to the decrease in construction in the Czech Republic there was also a decrease in the transport of building materials, predominantly cement. A logical result of the decrease in electricity demand is a decrease in the transport of lime for desulphurisation to power plants. The transport of cinder was only realised to a restricted extent, first because of its scarcity on the market and also with regard to its high price, due to which cement producers used limestone instead. There was also a significant decrease in the transportation of wood, or cut wood and chipboard used as building materials, which was connected with the global decrease in construction. The overseas transportation of chipboard was the first field where the impacts of the crisis could be perceived. Moreover, the production in certain wood-processing plants (eg the sawmill in Ptení) which used to be a long-term customers of the railways was discontinued. However, we have gained a new customer, a newly opened sawmill in Čáslav. The transportation of wood chips in woodtainers has been developing successfully, too.

The key activity of the Company still remains the transportation of solid fuels. The transportation of brown coal was stable with regard to the development of winter; however, the decrease in the demand for electricity resulted in its gradual drop, the weakest months being June and July 2009. There was a restriction or a complete inhibition of operations of certain energy resources; the failures and outages in the power plant complex in Mělník also had a negative impact on the Company's business activities. Also, cheaper electricity from Slovak hydroelectric plants appeared on the market. The Company realised trial transportation of brown coal from Polish and German mines for trial operations in Czech power and heating plants. Unfortunately, the

warm autumn and beginning of winter and the resulting lower heat demand resulted in a decrease in customers' interest in the transportation of heating coal. The majority of customers gathered their supplies in time and their storage yards were full. The significant drop in the transportation of black coal and coke is closely connected with the decrease in metallurgical production in the Czech Republic and abroad. The transport of coke across the Czech Republic to Hungary and Romania was restricted to a great extent. From the beginning of the year, this commodity proved to be subject to strong competition. In the middle of the year, the transportation of black coal and coke increased and this trend is expected to continue. The Company's trains newly transported black coal from Russia and Ukraine for further processing or burning in the Czech Republic. The sector of additive sludge seems to have good prospects. We participated in the import of coal sludge from Poland for fuel tests in the power plant in Poříčí u Trutnova and its export from the Ostrava region.

The transportation of liquid fuels and chemical products has been influenced by competition on the transportation market on a long-term basis. The Company's major goal in 2009 was to stop the decrease in transportation volumes and sales. There was an overall decrease in chemical production in the Czech Republic and abroad. The transportation of oil, petrol, and luckily also bio fuels gradually increased. The Company provides services to almost all major producers in this field. During the gas crisis in the winter months, we flexibly provided transportation of heating oil. We managed to increase the transported volumes of fuels also thanks to the cooperation with the Company's subsidiaries Koleje Czeskie, Sp. z o.o. and Generálne zastúpenie ČD Cargo, s.r.o. in Bratislava. On the other hand, there was a decrease in the transportation of aviation fuels as a logical result of the decrease in the demand for air transport.

The growing trend in the transportation of grains and food products which started at the beginning of 2009 lasted until July 2009 when the grain business significantly declined. At the same time, the competition strengthened and a number of smaller private transportation companies began to enter this field, offering very low prices. As a result of the competition, the Company increased the efficiency of the technology of loading and setting up complete trains for customers so that the set up was as fast as possible. However, the competition in respect of the transportation of this commodity does not only include trains of other transportation companies but also ships. Due to the permanently high water in the Elbe River which enables the greater loading of ships, the proportion of ship transport of grains increased in 2009. Despite these unfavourable conditions, we managed to exceed the 2008 volume by almost 8%. These results prove the correctness of the decision to acquire trains for the transport of grains. The development of cooperation with sugar refineries in the Czech Republic for which the Company

provides transportation of the produced sugar and bio alcohol and beet pulp in the form of pellets is very positive.

The permanent demand for new cars and the resulting stable growth of 10% in transportation within the automotive segment was disrupted by a significant drop in transportation by up to 55% at the end of 2008. Since January 2009, the transportation of car parts from ŠKODA Mladá Boleslav to the assembly plant in Solomonovo were almost entirely suspended (they used to amount up to seven pairs of trains per week). The introduction of the scrap allowance and the resulting increase in sales of new cars in Western European countries resulted in an initial drop in transportation which then returned to the volume of 2008. This trend was also supported by the initiation of operations in the rail siding premises of Hyundai Motor Manufacturing Czech (HMMC) in Nošovice from which the first trains with finished Hyundai i30 cars were transported in March 2009. We also gained new orders for car transportation across the Czech Republic.

The Company's combined transportation includes approximately 90% maritime transport and, therefore, the global economic crisis was also negatively reflected in this business segment. November 2008 was the critical month. Until then, there was a stable year-on-year increase of approximately 7% in combined transportation; however, in the last months of 2008, it was followed by a decrease of approximately 6% which continued in the first months of 2009. The number of connections of combined transportation began to grow no sooner than August in connection with the increase in the import of consumer goods, predominantly from Asia. The Company also succeeded in establishing a regular service of complete trains on the Prague Uhřetěves – Nýřany track and increase the number of trains from the original two pairs per week up to five pairs per week. After intensive preparations and negotiations, the first container train in the rail siding premises of the HMMC production plant in Nošovice was welcomed on 17 February 2009. A segment of combined transport in which the impact was not so significant was continental (European) transport in interchangeable cargo containers and tractor-trailers. This again proves that the focus of the Company's business activities in this direction is the correct choice and the Company will continue pursuing it. The quality and scope of transportation of car parts from ŠKODA Mladá Boleslav to the assembly plant in Kaluga was also very good. At the year-end, the Company also effected transportation from Győr to Kaluga across the Czech Republic.

The Company also constantly focuses on logistic services. The railway transport differs in a number of aspects from road transportation and, in many cases, these aspects are perceived by the customers as a disadvantage. They predominantly include the inability to deliver goods

to the customer's unloading or loading site in cases where no rail siding leads to the customer's premises. In such case, the goods must be reloaded from rail vehicles to road vehicles. These services (and not only these) are provided by the Company as "Additional (logistic) services". There is increasing customer demand for these services due to their specificity and high professionalism, especially if these services are provided together with railway transportation. The Company's logistics terminal in Lovosice which has been in operation since 2006 is also developing very successfully. Currently, the subsidiary ČD-DUSS Terminál checks in seven container trains per week and offers storage and other services to the customers.

In late May/early June 2009, the Company provided for the return of the KFOR AČR units from their mission in Kosovo. The Company's train was sent to Kosovo separately to collect the equipment. As part of a staff training of PBIST NATO, the focus of which was the explosion of tanks with gas in the Kúty railway station, the Company was asked to provide transport including alternate routes. The largest "live" training was the international "CLEX 09" which physically provided transport of a container with humanitarian aid from Germany to Bulgaria using the combination of railway transport to Brno – Maloměřice and road transport to Győr from which the container continued by ship. The committee of PBIST NATO assessed the participation of DB and the Company as the best and most flexible.

At the beginning of 2009, the rail siding of HMMC Nošovice was put into trial operation on which the Company operates railway transport. To its business partners, the Company does not only offer the operation of railway transport and railways. Currently, the Company provides this activity using tracks-rail sidings of Procter & Gamble – Rakona, s.r.o., Biocel and Cement Hranice. Intensive negotiations with other customers are in progress. The Company owns 11 rail sidings of the rail vehicles repair service (OKV) and rail vehicles repair service centre (SOKV) where it serves as operator pursuant to Act 266/1994 Coll. on Rail Systems. At the year-end, a team for the support of business activities on the rail sidings was activated which already started to negotiate first particular cases.

Rolling Stock and Rolling Stock Management

Rail vehicles represent a basic production facility for the Company which is necessary to fulfil one of the Company's principal business activities, ie the operation of railway transportation with a focus on the transport of goods.

In 2009, the operating inventory of locomotives amounted to 650 functional cars. Electric locomotives were predominantly used for long-distance freight trains; diesel locomotives were predominantly used on non-electrified tracks. The average daily run amounted to 342 locomotive kilometres. For freight cars, the business demand amounted to 24,000 towed wagons; the largest group comprised wagon series to transport mass substrates, liquid substances and combined transportation of goods.

One of the key goals of wagon maintenance and repairs in 2009 involved upgrading the technical level of the fleet so as to meet the operational and performance requirements. To do so, the capacity of both the in-house Railway Vehicles Servicing Centres and external repair shops was used. The base-level repairs were provided by ČD's Railway Vehicles Depots; the higher-level repairs were ensured by external private repair shops.

In 2009, the process of aligning the rolling stock structure with perspective market needs continued. The Company took steps leading to the modernisation and reconstruction of its vehicles. As part of the modernisation and reconstruction of vehicles, vehicles of the Falls type, group 54 were supplied, the renovation of vehicles for the transportation of wood with the "Laaps" designation and the modification of a narrow group of cars to the Talls type for the transport of glass sands took place. In order to increase the business attractiveness of Kils type vehicles, the Company made technical adjustment to Laails type vehicles.

In addition to minor technical improvements, the modernisation of locomotives of type 753.7 took place on a contractual basis. Their number thus increased to 18 in 2009. At the year-end, seven modernised locomotives of type 230 were gradually accepted. The Company installed equipment monitoring electricity consumption and position into locomotives of type 230 and one locomotive of type 363. Currently, this regime can be used in Slovakia. In the Czech Republic, the process is at the beginning of verification and setting of legislative conditions. In mid 2009, the approval phase regarding the possibility of operating locomotives of types 742 and 240 on the Hungarian territory was finalised. This provides new space for the operation of locomotives outside the current operating space.

2009 was difficult in terms of operational management. The operations division had to cope with unpredictable events in transport and a higher density of trains on certain tracks and irregularities in transport which resulted predominantly from closures. The routes of individual trains thus had to be modified according to the current trafficability of the tracks. Despite all obstacles, the Company's operations division fulfilled the tasks which were included in the business plan for 2009.

TANGIBLE FIXED ASSETS AS OF 31 DECEMBER 2009 (Selected items)

Indicator	Measuring unit	2009	2008	2007	Index 09/08
Rail vehicles					
Electric locomotives – direct current	piece	288	288	288	1,00
Electric locomotives – alternating current	piece	132	137	137	0,96
Electric locomotives – two-system	piece	59	59	59	1,00
Motor locomotives	piece	483 ⁴⁾	479 ²⁾	499	1,01
Freight vehicles	piece	29395 ⁵⁾	31960 ³⁾	32 809 ¹⁾	0,92
Rail superstructure and substructure					
Total building length of tracks	km	50	50	49	1,00
Number of railroad switches	piece	232	232	226	1,00

¹⁾ Including 243 freight wagons under retroactive lease and 79 freight wagons under long-term leases

²⁾ Including 7 motor locomotives under long-term leases

³⁾ Including 923 leased vehicles

⁴⁾ Including 24 motor locomotives under long-term leases

⁵⁾ Including 923 vehicles under long-term leases and 1,145 vehicles under retroactive leases

⁶⁾ Includes passenger vehicles for company purposes and army and special transport

Operational Management

The operational management division is divided into the operational management department, department of freight vehicles management and special transportation department.

During 2009, the operational management department transformed to product planning and product management control. By creating this system, the planning activities of the operational and trade divisions became closer.

The department organises the operation of the Company's freight vehicles in line with customer needs predominantly in terms of the timeliness of transportation, locomotive requisites and for exceptional occurrences, it decides about the priorities in freight transport based on the Company's business interests. It thus fulfils the role of the transportation company's dispatch centre and closely cooperates with the controlling body of ČD, a. s. which fulfils the tasks of the railway operator.

The controlling body is organised area-wide within the Railway Infrastructure Administration (SŽDC) network. It is organised in line with the need of product planning of train operation by

individual decisive commodities. This structure is complemented by network-wide planning of related train connections. All train connections are planned by an appropriate controller from the Company's controlling body (DAC) via an operations supervisor – shift leader pursuant to the assigned operational unit districts.

The dispatch centre is located in Česká Třebová with divisions in Česká Třebová, Ostrava and Ústí nad Labem. The shift leader for the entire ČD network is the central controller. He manages the activities of DAC, coordinates the creation of a shift plan and based on the available information he issued operating measures for its realisation. He is responsible for the contact with the operator and other transportation companies, including foreign ones. He organises, coordinates and takes measures in extraordinary situations.

One chief controller – shift leader in his district with regard to operations as well as to the relation with the correct activities of IS tasks – is appointed for each of the DAC workplace districts in Česká Třebová, Ostrava and Ústí nad Labem. He is subordinate to the central controller of DAC and is responsible for the assigned district in which he manages and coordinates the activities of DAC controllers.

The operations with locomotives and locomotive crews by DAC districts are directly organised by a locomotive operations controller.

In order to ensure the smooth handover of trains on border crossings with Germany (Děčín – for all crossings) and Poland (Bohumín – for all crossings) common controlling workplaces shared with ČD (Dispostelle) are used as a part of the DAC structure. Their mission is the coordination of mutual handover of trains in border transit stations with these neighbouring railways.

For operational management itself, an operational management information system (ISOŘ) is used. As a result of the increasing number of customers who take advantage of complete trains without an assigned regular track planned in advance, the number of requirements for the assignment of transportation capacity and train tracks in short deadlines (ad hoc) is increasing. The railway operator implemented a KADR information system for the purpose of dispatching requests; via this system, the transportation capacity and the train track is assigned and the operational management department processes these customer requests.

During 2009, tasks related to the organisation of operations and transportation requests were fulfilled on an ongoing basis and in the relevant quality, despite the fact that extensive outages took place in many localities not only within the ČD network but also in locations bordering

neighbouring railways over the whole period. The most difficult situation in respect of the organisation of work was the rebuilding of the Kolín junction which resulted in a restriction of the train transit capacity for several hours; furthermore, this included the modernisation of the following track sections: Bohumín – Čadca, Plzeň – Cheb, Prague – Tábor, Beroun – Plzeň and the modernisation of the Břeclav junction.

In addition to the outage activities, our abilities were also proved by other extraordinary events, predominantly in the operational management district in Ostrava, which had a significant impact on the regularity of the railway freight transport. These predominantly included the impacts of the floods in the Suchdol nad Odrou – Polom track section and a track section through Horní Lideč during the impassability of tunnels on the Mosty u Jablunkova – Čadca track.

Operational Safety

In 2009, 372 extraordinary events (EE) pursuant to Section 49 of the Act on Railways 266/1994 Coll., took place with the Company's participation, of which only 142 EEs were the responsibility of the Company. The aggregate detriment arising from the EE referred to above amounted to CZK 67,615,609, of which the Company suffered detriment worth CZK 37,133,459. During the EE, a total of 40 people were killed (during their presence in restricted areas of the railway track and during collisions on crossings). A total of 22 locomotives and 66 rail wagons owned by the Company derailed.

The results of the investigations of the 2009 EEs are as follows:

- There was a year-on-year decrease in the number of the monitored quantities in respect of all indicators referred to above;
- None of the railway crossings collisions or collision with a person were the Company's fault; and
- None of the EEs was caused by a system failure of our organisation.

Pursuant to a concluded contract, extraordinary events are investigated for the Company by Department 18 of the General Directorate of ČD, a. s. for consideration.

The Company actively participates in the organisation of prevention and security events which are evaluated positively in professional and media circles. Over 4,000 pupils of primary and secondary schools in České Budějovice, Písek, Plzeň, Rokycany, Karlovy Vary, Sokolov and Cheb participated in the event called "Prevention train – Spring and Autumn 2009".

Information on the Balance of the Company's Assets

The Company's Real Estate

In addition to usual elementary production means, such as rail vehicles, the Company also owns real estate, without which, the Company's business activities would be restricted and therefore can be considered strategically significant.

A total of 177 buildings and 209 plots owned by the Company are registered at the Cadastral Office of the Czech Republic. At the end of 2009, another piece of real estate – the Rail vehicle repair centre in Cheb was added to them.

The regular maintenance of real estate is effected by the Rail vehicle repair centre itself in line with the financial plan; the investment activities are effected in line with the Company's general directorate.

Lease of Rail Vehicles

One of our business activities also includes the lease of rail vehicles, ie freight wagons and locomotives. In 2009, over 100 contracts for short-term and long-term leases of vehicles were realised.

Over 3,500 railway freight vehicles used in railway freight transport and as storage space on rail sidings were leased. Based on long-term contracts, the Company also leases locomotives, exclusively for their use abroad. Over 90 locomotives which were surplus and further unusable for the Company have been set aside for lease purposes.

Cross-Functional Activities

Marketing and Communication Activities

The marketing and communication activities of the Company are predominantly based on our need to support the sale of our own products and services, create a new corporate identity and increase brand awareness.

During 2009, the second part of the Company's main marketing and communication campaign called "Whatever – Wherever" took place which focused on the promotion of the Company and its services to the professional and general public. The entire campaign was prepared in a new visual style which matched the rebranding concept of ČD Cargo, a.s. This follow-up campaign was predominantly focused on individual products and on environmental protection. The goal of the marketing campaign was to promote the Company and strengthen its leading position on the railway freight transportation market in the Czech Republic and Europe. The media used during the campaign included billboards, printed media (magazines, weeklies and dailies), interactive media (LCD displays, radios), promotional leaflets and web pages. During the year, two new movies about ČD Cargo were created; these movies were predominantly intended for the needs of the trade fair team at international trade fairs and for the presentation of the Company at logistic symposia.

Web Presentation

Another successful project and a significant means of communication of ČD Cargo, a.s. included the creation of a website for business partners and customers, www.cdcargo.cz. The web pages were created in a new style according to the Company's Design manual. Due to growing customer interest in information, the web pages required a complete redesign, regular updates and the creation of the English version. During the year, the web pages were developed and new links and information was added, such as on-line tools (list of stations, monitoring of deliveries, and catalogue of vehicles), customer support (info line, documents for downloading, tariffs, customer instructions and aids), and information service (download of Cargo Motion, Bulletin Cargo and Cargo Speciál magazines). The press centre published press releases on an ongoing basis and during the year and the photo gallery for journalists was completed. Similarly, the intranet pages for the Company's employees, a significant information medium, were developed and expanded.

Print and Media Communication with Customers

ČD Cargo, a.s. became a successor in the production and distribution of the exclusive quarterly CARGO Motion which is published in a dual Czech-English version and provides information about the world of railway freight transport and related services. It is predominantly intended for senior managers of cooperating companies, for state administration representatives and for selected secondary schools and universities focused on transportation. Another magazine published by the Company is the Bulletin Cargo quarterly which predominantly focuses on the business community and, in addition to usual information on railway freight transport, it includes information on legislation and other legal requirements in this area. As a supplement to the Grand Expres monthly, ČD Cargo, a.s. publishes the Speciál Cargo magazine which is intended for the general public with the aim of presenting the life in railway freight transport in a fun way. In addition to publishing these periodicals which focus exclusively on the area of freight transport, ČD Cargo, a.s. also participated in the publishing of the Železničář weekly. In the second half of the year, the Company started to publish its own newspaper called Cargovák which is intended exclusively for the Company's employees. This newspaper includes the latest information on the Company's development.

Trade Fairs and Conferences

In 2009, ČD Cargo participated in the most significant international trade fairs focused on transport and logistics as an independent exhibitor. These included the TRANSRUSSIA trade fair in Moscow, the Transport and Logistic trade fair in Munich, Czech Raildays in Ostrava and MSV with a focus on transport and logistics in Brno. The Company slightly renovated its current exhibit in order to increase the area intended for communication with business partners and to improve the provision of information to customers at fairs. New films have been produced about the Company which bring the world of freight transport closer to the customers. Other significant conferences in which the Company participated included the international IRFC 2009 (International Rail Freight Conference) conference in Prague, EASTLOG, the Transportation day under the auspices of the Transport Union and the international logistics conference Speed Chain 2009. Major conferences also include the autumn ČD Cargo conference organised in Špindlerův Mlýn which is intended for all the Company's business partners and is focused on business and pricing policy.

Research and Development

During 2009, the Company started cooperating with certain Czech universities, predominantly technical and economic universities. The core of this cooperation is consultations and supervisions of students during the preparation of their annual theses (end-of-term, bachelor's and master's theses).

The topics of the theses are submitted and selected according to their potential contribution to the Company and concern a whole range of current and potential problems and issues regarding railway freight transport. They include operational issues, such as the use of the rolling stock, investments in the locomotive fleet, comparison of weaknesses and contributions of modernisations and acquisitions of new vehicles, organisations of operations etc, as well as business issues, such as the possibilities of expanding the current commodity transport or gaining completely new transportation orders, and the inclusion of railway transport in consumer goods transport and logistics chains.

ČD Cargo perceives the cooperation with universities as highly significant, with regard to seeking and finding new solutions and in the recruitment of future employees.

Informatics

Project Office

At the beginning of 2009, the Company's project office was put into operation; its major purpose was to standardise the strategic project management process in our company. This was the final step in the implementation of standard project management functionalities in our company. All new activities which have a project character are managed by the project office; project methodology will be used in a number of other activities which do not display project parameters. Thus the Company manages to fulfil the basic predefined goals:

- Standardisation of the project management process;
- Maintaining projects within the planned schedule, budget and scope;
- Elimination of risks which result in project failures;
- Possibility of choice within the project portfolio – unified evaluation indicators, approval guidelines of the investment committee for strategic projects;
- Project management – organisation and coordination of current projects (concept maintenance, elimination of duplicate activities, and seeking synergies);

- Delegating competencies, involving senior management only in strategic decision making and problem escalation. The project is managed by a project manager; and
- Informing the management of the Company on the current state of the project without undue delay.

The majority of strategic changes in IT are managed in the form of projects. All steps realised in IT in the prior period resulted in the fulfilment of the basic goal, ie “to use information technologies for efficient work and for overall control of the Company’s expenses and profit to a maximum extent”.

Implementation of Process Management and Application of Tools for Business Intelligence

Currently, the Company implements and makes full use of instruments for process modelling and for the creation of BI reports. These tools are used on the level of individual projects the effects of which will be gradually implemented into routine use. The tool for the creation of a process model and tools for the creation of reports will become the key supporting tool for the achievement of the Company’s higher efficiency. The process model will provide an overview of the performed activities within the main and supporting company processes and it will provide a basis for their overall optimisation. The KPI system and the reporting body will help quantify the outputs of these projects and initiate their measuring.

The first set of financial management reports was submitted for routine use.

Operational and Business Applications

2009 was marked by analytical preparations of the Company’s new operational and information system (PROBIS). Its clear objective will be to match the sales and expenses to the business case as accurately as possible and thus obtain the most accurate information possible on the current and realised transportation. The system will ensure the interconnection of basic objects in railway transport (train, wagon, locomotive, locomotive driver and station employee) with the business case over the entire life cycle of the transport and will ensure the fulfilment of obligations arising from an EU regulation on TSI TAF. Furthermore, it will ensure not only a closer interconnection of operational and business systems but also the interconnection of individual operating systems. This will enable easier and more flexible planning of the necessary capacities and an overview of an actual use of the exposed capacities. Thus customers will have access to an online overview of all their deliveries and receive information

on the provision of an empty or integrated car sufficiently in advance. The development of PROBIS will start in 2010 so that the required state is reached in 2013 at the latest.

In 2009 the development of the VLASTA (stations for the formation of trains) information system continued; since March 2010 this system has been put into routine operation. Its rollout to the entire network of stations will be completed in the third quarter of 2010, fully replacing the local MIS which is based on an outdated DOS platform.

In connection with the VLASTA information system, the Company started working on a strategic project focused on the acquisition of operational data on the track and using mobile devices – PDA. The major purpose of this project is to acquire data directly on the track and thus optimise the time of their acquisition (shortening of technological periods), gain comprehensive data (currently absent) in real time and replace paper documents with electronic data collection. The results of this project will be used during 2010.

At the end of 2009, the Company completed the development of the IS OPT system which has been used since 2010 to fulfil all accounting, taxation and legislative requirements. By completing the IS OPT vehicles module, the Company created conditions for the implementation of the commercial model of vehicle use (KMPV) in respect of empty vehicle transfers in line with the Commercial amending agreement to VSP – RIV adaptation. The pilot invoicing of the empty vehicle transfers in the KMPV mode in 2009 was effected with DB Schenker. With regard to the large volumes of the processed data and possible failures with a negative impact on transfer sales, we anticipate future automation of the process.

SAP Economic System

All activities in SAP were realised with the basic objective of implementing new functionalities in its standardised version using a minimum of program adjustments. In 2009, the SD module was implemented in invoicing of transfers and the preparation of its use in other areas where invoices are issued is in process. Within the SD module, the Company introduced an electronic process of issuing and distribution of customer invoices. The results aim at the maximisation of the volume of electronically distributed invoices and the provision of variability of invoice accumulation based on the customer's wishes. Since 2010, customers can newly use an e-archive for the issued invoices. Within the MM module, a new method of order confirmation, implementation of functionalities for overall optimisation of purchase prices, an efficient supplier evaluation and three-step pairing of documents (order – delivery sheet – invoice) was implemented.

Security Policy for Data Protection

The first step of a newly designed security policy and data protection was the implementation of Identity management as a major and the future only system for centralised identity administration. The purpose of its implementation was the simplification and safe use, creation, administration and maintenance of user identity. Since 2009, the administration of user accounts of the Company's individual applications has been gradually transferred.

International Activities

The Company's international IT activities can be divided into two parts. The first includes the operation and development of existing interfaces for the exchange of data with partners. The other one is the participation in projects of new applications with regard to the requirements of the market and the European legislation. There was a significant development in both of these areas in 2009. The Company operates routine exchanges of data about trains and vehicles (using the UIC application 30) and deliveries (using bilateral application 40) with all neighbouring transportation companies, with the exception of PKP Cargo S.A. where application 30 is in testing operation. We developed new versions of reporting for both applications which reflect the changes in international transportation conditions, especially the new COTIF agreement. Application 30 became the basic tool for securing confidence in the technical and transportation aspects of trains. For the purposes of monitoring our vehicles and deliveries abroad, we are, as a member of RAILDATA, connected to the European central ISR system. Thanks to the new reporting type, the monitoring accuracy increased. The information included in ISR is available to our customers via our website.

The major driving force of the new IT projects has been the EU liberalisation legislation, predominantly including the Technical specification interoperability for telematic applications in freight transport (TSI TAF). As part of the preparation of TSI TAF implementation, the Company is an active member of a group of large transportation companies (cluster of railway companies). We actively participate in the validation of specifications for the train preparation process. We intensively cooperated with SŽDC, s. o. and ČD, a. s. with the aim of coordinating the gradual realisation of TSI TAF. Another major activity which we monitored was the concept of an electronic freight sheet (e-RailFreight project) which is based on a revolutionary change in the transportation technology, the replacement of freight and vehicle sheets by their equivalents. As part of the preparation, the Company introduced a pilot project – paper-free

operation of intrastate transportation and, using application 40, also an electronic checkout technology for the return of empty cars with Rail Cargo Austria.

Investments

In 2009, the Company realised investments in the amount of more than CZK 2 billion. The Company's investment activities are predominantly focused on rail vehicles; these investments amounted to 86% of the acquired fixed assets in 2009.

Investments in Freight Vehicles

In 2009, 727 railway freight vehicles were modernised. In the reporting period, 50 modernised vehicles of Zaes type and 55 modernised vehicles of Talls type were delivered. The deliveries of these modernised vehicles are the result of orders which were initiated in the prior period. Furthermore, new orders for the modernisation of vehicles of Laaps, Falls and Rils types were realised. During the year, 200 vehicles of Laaps type, 350 vehicles of Falls type and 72 vehicles of Rils type were gradually modernised. The deliveries of modernised vehicles of Falls and Rils types will continue in 2010. As part of the investment activities which are oriented on freight vehicles, changes of wheel monoblocks on railway freight vehicles of various lines were made.

Investments in Locomotives

In the area of locomotives with electric drives, 4 electric direct-current six-axle locomotives of types 181 and 182 and 5 alternating-current locomotives of type 230 were modernised. The deliveries of two modernised locomotives of type 230 will be realised at the beginning of 2010. Furthermore, work was initiated on the first two locomotives of type 163 which will be modernised to dual-system locomotives of type 363. These two modernised locomotives will be delivered in 2010 and another 28 modernised locomotives of type 363 will be delivered in 2011-2013. In 2009, the modernisation of 14 locomotives with diesel engines to type 753.7 which are delivered on the basis of leases was successfully completed. The modernisation of these locomotives will be completed in 2010 by delivering the remaining 11 of the aggregate amount of 30 modernised locomotives. A part of the investment activities in locomotives is the technical improvement of locomotives of different types and with different drives (implementation of radio equipment, use of gel batteries, modifications made during higher level manufacture repairs, modification of the locomotive driver's post, changes of wheels, etc).

Investments in Construction and Machinery

Another significant component of the Company's investment activities includes activities in the area of construction and machinery. The investments in construction and machinery were focused on the modernisation of machinery premises and technological equipment for the needs of organisational structure units and the renovation of administrative and repair centres within these units. During 2009, 12 investments in machinery and 35 investments in construction were realised. The investments completed in 2009 predominantly included the renovation of administrative buildings within the rail vehicles repair service centres (SOKV) in Ostrava and Ústí nad Labem and the renovation of the sand replenishment equipment in SOKV in České Budějovice. A major part of investments started in 2009 and their completion is planned for 2010. One of the most significant investments is the planned renovation of the freight vehicle repair centre in SOKV České Budějovice which is now in the preparation phase and the start of construction work is planned for 2010.

Other Investments

Other significant investments of the Company include investments in information systems and technologies (refer to the *Informatics* section), the acquisition of handling equipment and freight vehicles, investment in work safety and health protection and investment in logistics terminals.

In individual SOKV the Company realised investments in freight vehicles which are used for spare part deliveries and for the realisation of rail vehicle repairs outside the Company's premises. In 2009, obsolete handling equipment was replaced in selected operational units. This change predominantly concerned forklifts. In addition to own investment activities, a total replacement of passenger and utility road vehicles was realised under operating leases in 2009. The intention to optimise the operating costs of the categories of road vehicles referred to above was fulfilled via the unification, standardisation and the overall simplification of administration of the car fleet which amounts to 123 road vehicles. The replacement of road vehicles was completed in mid 2009.

In 2009, the Company acquired a freight vehicle repair centre in Cheb; due to this expansion of its repair capacities, the Company managed to increase the flexibility and to decrease costs of the repairs of freight vehicles. The repair centre was purchased from České dráhy, a.s. With regard to the Company's strategic intentions in the area of logistics centres, plots for the future construction of an intermodal logistics centre in Brno were acquired in 2009. The Company

expects to prepare and realise the construction of the logistics centre in the following years. In line with the business plan, the major priorities of the Company include the replacement and modernisation of the rolling stock, further investments in machinery, construction and other investments which are necessary to ensure the Company's operations. The Company uses its own financial resources and extra-company financial resources for financing its investments. The extra-company resources predominantly include leasing and supplier loans.

Staff Policy and Social Programme

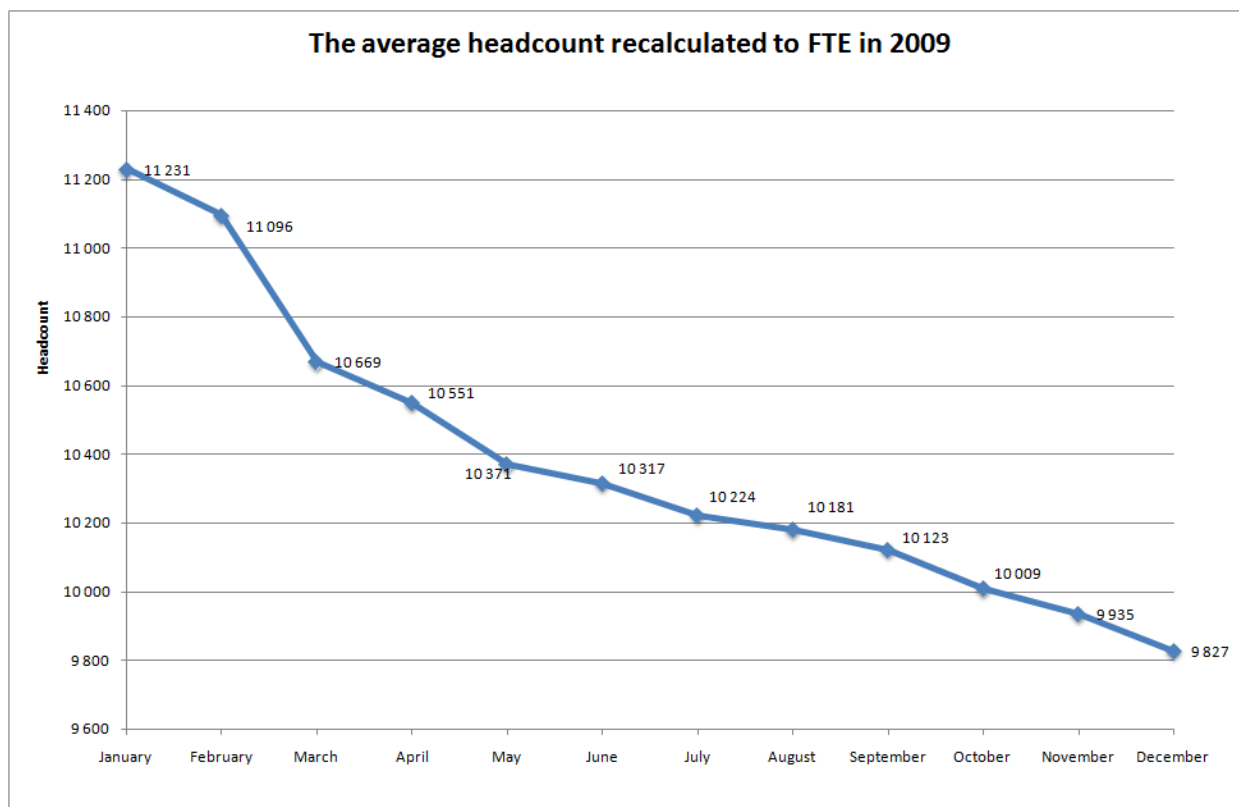
The Company has continued with the realisation of adopted measures in order to improve the financial situation and increase work productivity. As part of the measures which were taken in the area of human resources, the optimisation of the number of employees continued with the objective of improving the ageing and professional structure while maintaining an efficient employment rate.

Contractual cooperation with selected high schools continued, which was focused on the preparation of graduates for future careers at ČD Cargo in order to decrease the average age of our employees. The contracts include theoretical and practical preparation, cooperation within the research and development programmes, use of the latest scientific and technological findings and their implementation in operation, participation in the creation of study programmes, etc. As part of a motivation programme, successful students of contractual schools had again the opportunity to receive a contribution for studies which is conditioned on a contractual obligation to join ČD Cargo, a.s. after the completion of the studies. For the 2009/2010 school year, a total of 22 students were selected who will be able to start working at the Company as soon as they graduate in 2010.

As a result of the impacts of the financial and economic crisis, the Company, after a discussion with trade unions, has been using the regime of partial unemployment pursuant to Section 209 of the Labour Code since from 1 April 2010 until the end of 2010.

In line with applicable legislation and in cooperation with the trade unions, occupational safety and health, the improvement of working and social conditions of employees by way of preventative care and convalescence stays, and the increase in health protection was provided.

From January to December 2009, the average registered headcount recalculated to full time employees decreased by 1,404 employees, ie from 11,231 (January 2009) to 9,827 employees (December 2009). The physical headcount as of 31 December 2009 was 9,819.



In order to reduce the unwanted social impacts of the decrease in employment which resulted from the transformation of České dráhy, the accompanying social programme which was adopted by the Czech government was also applied in 2009. This programme is concerned with the following areas above the scope of legal regulations:

- Provision of severance upon termination of employment related to the transformation in line with government regulation no. 370/2007 Coll.;
- Lease relations with regard to flats and residential buildings;
- Employee fare and transportation costs;
- Other social benefits; and
- Requalification of employees.

In 2009, the average salary in ČD Cargo, a.s., ie the payroll costs excluding other staff costs, amounted to CZK 26,261. In line with applicable legislation, the social fund of ČD was predominantly used for the employees of ČD in 2009 to:

- Improve the working environment;
- Contributions for cultural and sports activities, and holidays;
- Contributions for meals; and
- Social assistance, etc.

Eight trade unions operate within ČD Cargo, a.s., including multi-professional unions as well as unions solely representing professional groups of employees. The Company collective agreement which regulates individual and collective relations between the employer and the employees, as well as mutual relations between trade unions and the employer was concluded with effect from 1 January 2009 until the end of 2009.

Code of Ethics

In 2009, the employees acted in line with the Code of Ethics of ČD Cargo, a.s. which helps ensure that the everyday activities of the Company and the conduct of all its employees are in line with the Company's principles, ie with a set of particular rules which are based on the Company's values and principles and define the standard of professional conduct. This represents a set of ethical principles, norms and requirements that are binding for the employees. The Code particularises the Company's ethical values, vision and mission, and complements and develops the Company's Work regulations.

Quality Management – ISO

In line with the organisational changes which took place during 2009, a unified management system – ISO was gradually introduced in the entire Company. The senior level of management of these systems, including the Quality Management Systems (QMS) falls under the competency of the Crisis management, safety and ISO management systems division.

One of the basic tasks is an annual recertification with the ISO 9001 quality certificate which was awarded to the freight transport division in 2006 under the conditions of ČD. The quality certificate is predominantly used during selection proceedings in which our Company participates. The Company proved its ability to be recertified and to successfully go through the demanding certification or recertification proceedings during the annual compliance audit in April 2009 (external audit performed by the certification company Moody Int., s.r.o.).

During this audit, Moody Int., s.r.o. did not identify any non-compliance in the major certification area, ie the business activities and the realisation of railway freight transport services, nor did it make findings in the category of recommendations. The initial stage of the external audit included internal audits; no system non-compliance was identified during these audits either.

At the same time, framework preparations related to the integration of all certification fields of our company were realised in 2009. Starting in 2010, these fields within the QMS will newly include:

- Business activities in railway freight transport;
- Provision of railway freight transportation services;
- Operation of railway and railway siding transport;
- Maintenance and repairs of rail vehicles and their parts; and
- Lease and sublease of rail vehicles.

Since 1 October 2009, the activities of system and internal norm creation methodology, including the review of its compliance, have been transferred from the IT and change management division to the Crisis management, security and ISO management systems division. The group of ISO management systems thus has authorisation for the OR1-A-2007 internal norm under which this activity is performed and managed.

Another priority task which has been solved throughout the year was the mapping and description of (sub)processes (that are required not only by ISO 9001) which are included in the activities of the sales and operational manager of GŘ ČD Cargo, a. s. This is the “Process modelling II and electronic ISO documentation” project – the second project in a row which is concerned with process diagram modelling, which continues the pilot project from 2008 concerned with the mapping of processes in financial management. The major and supporting processes carried out by individual units within the organisational structure and across the entire company are in different phases of completion.

From the short-term and medium-term viewpoints, our company aims at the expansion of the EMS certification under ISO 14001 from SOKV Ústí nad Labem to other SOKV or expand this certification to other units of the organisational structure in cases when the activities performed or managed by them have an impact on the environment. The Company also aims at the implementation of work safety and health management in line with the OHSAS 18001 normative recommendation. In the final phase, the integrated management system (IMS) should be created in the whole company. The Company and the Community.

The Company and the Community

International Activities and Relations

The Company's involvement in the activities of international organisations is still subject to the conditions set up by the international activity contract concluded by and between ČD Cargo, a.s.

and ČD, a.s. With our parent company, we promote the principle of a uniform concept, ie uniform membership of the ČD group, coordination and information sharing.

ČD is a guarantor of the membership in the International Union of Railways (UIC), Community of European Railway and Infrastructure Companies (CER), Organisation for Railway Cooperation (OSŽD), Forum Train Europe (FTE) and the International Rail Transport Committee (CIT). Membership in organisations linked directly to freight transport, such as the International Association of Tariff Specialists (IVT), Intercontainer/Interfrigo (ICF), European Palette Pool (EPP) and Interunit, is currently transferred to ČD Cargo, a.s.

Other activities of the international relations group include international projects. We continue in the involvement in selected projects of the Freight transport forum of the UIC. This category includes the DIOMIS project the goal of which is the improvement of the level of knowledge in combined transport (infrastructure, terminals) and a study of potential customers in Central European countries.

The Company introduced the new X-Rail project. During 2009, the Company was preparing for the initiation of the project and the signing of the foundation agreement between seven European freight transportation companies. The benefits of the project should include the maintenance of the system of transportation of individual consignments and, if possible, their increase thanks to quality improvements. If we guarantee that 90% of X-Rail consignments are delivered on time, we will get to the reliability level of road transport, we can retain our customers and gradually increase the transportation volumes. The X-Rail system will only function on the territory of X-Rail alliance members. Our advantage is that Germany and Austria are members of the alliance. At the beginning, the project will function on selected tracks but gradually we would like to achieve the highest level of coverage. With the accession of new member states, the number of tracks will increase.

The common initiatives of ČDC and ČD include the SoNoRa project focused on the development of intermodal transport. It is realised within the operational programme of Multinational cooperation financed from the European Regional Development Fund (ERDF) which focuses on the development of multimodal transport between the Baltic and the Adriatic Sea, with a focus on the development and strengthening of the infrastructure of intermodal terminals and the railway infrastructure as such. As part of the project, national investment needs for infrastructure development will be unified on an international level, studies of market opportunities for selected localities where public logistics centres could arise will be prepared. Furthermore, the Company will prepare case studies for suitable solutions of transportation and

logistics services aimed at railway and water transportation. The task of our project solvers is to prepare an analysis of development of an intermodal terminal in Lovosice, including the purchase of hardware and software for the optimisation of the movement of re-loaders in the terminal and predominantly a pre-investment study of market opportunities of the Brno terminal.

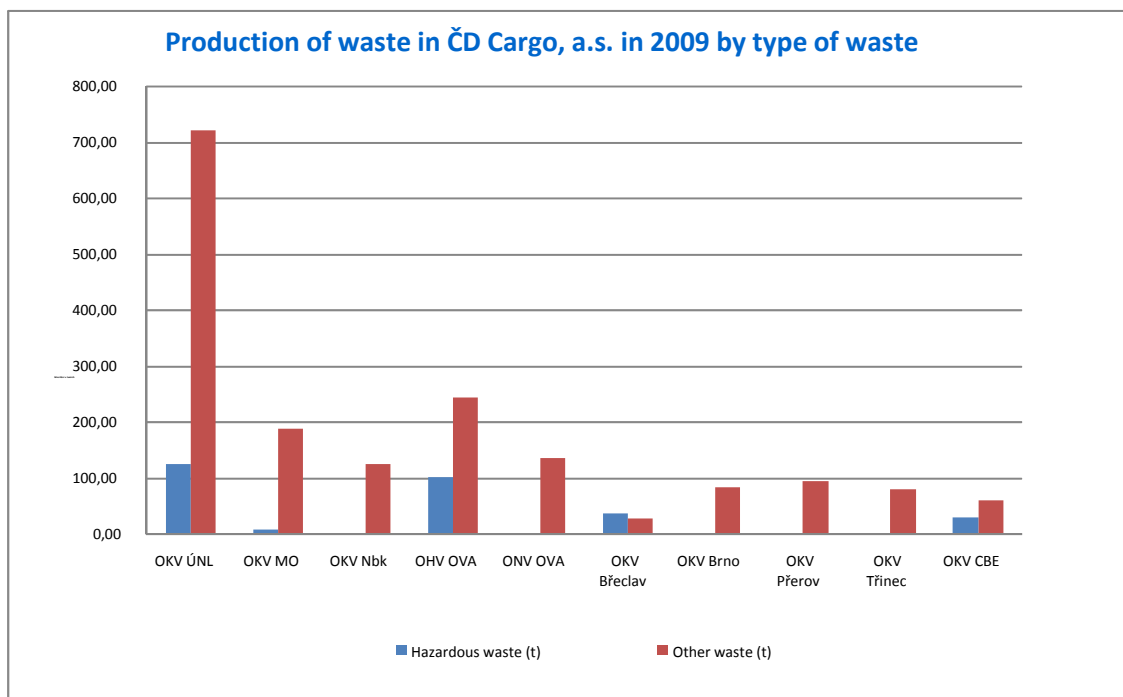
Ecology and Environmental Protection

Following its establishment, ČD Cargo has been concerned with the areas of ecology and environmental protection. These issues are solved within the ČD group. ČD Cargo and ČD cooperate on the basis of a mandate contract. With regard to the concluded contractual relationship, the Company has created its own hierarchy which focuses on the SOKV and PJ lines where processes which are directly linked to ecology take place. Such processes include the production of emissions from the use of fuels and technological units, production of various types of waste, water and air cleanliness, etc.

Diesel locomotives, where, as part of the modernisation process, a new type of combustion engine which fulfils the strict technical criteria is implemented, contribute to the decrease in emissions to a great extent. These include the project of modernisation of 30 locomotives of type 753; in 2009, the Company owned 18 such locomotives.

In 2009, the Company's certification of the EMS process was expanded pursuant to ISO 14001:2001 from OKV Ústí nad Labem to the entire SOKV. Since this process is predominantly focused on environmental protection, its acceptance was a challenge to improve all environmental activities. First of all, the second phase of the "Sewerage Renovation" investment event was realised. Another investment which was predominantly focused on the decrease in the emissions of dust particles was the renovation of the sand replenishment equipment in all SOKV.

In 2009, no environmental accidents happened in the Company.



Fire Protection:

The focus of the Company's fire protection remains on the prevention of extraordinary events and is fulfilled pursuant to Sections 5 and 6 (1) (a) of Act 133/1985 Coll. on Fire Protection, as subsequently amended, and Section 30, Regulation 246/2001 Coll. on Fire Prevention.

The organisation of fire prevention is carried out by professionals with OZO PO qualification (specially qualified person in the field of fire protection). These include the employees of SOKV who subsequently cooperate with OZO ČD, a. s. and carry out their activities in PJ, where the Company acts as a lessee.

Part of the prevention is also a regular training of quickly vacating the Company's premises. Given that since the formation of ČD Cargo, a. s. there has been no loss of lives, it can be said that prevention is highly efficient and is considered important by the employees.

During extraordinary events, the interventions are done by the Fire protection unit of the Fire Rescue Service of the Czech Republic in cooperation with the Fire protection unit of the Fire Rescue Service of SŽDC, s. o. In 2009, there were 21 fires resulting in an aggregate loss of CZK 4.89 million. The saved value amounts to CZK 4.15 million.

Corporate Social Responsibility

Being the largest railway transportation company in the Czech Republic and the fifth largest railway transport provider in Europe, ČD Cargo, a.s. is aware of its corporate social responsibility. This is reflected predominantly in the Company's environmental protection activities – the Company tries to act as environmentally friendly as possible with regard to its business activities. The environmental protection was the major topic of the ongoing marketing campaign. In addition to this, the Company participates in a wide range of educational and charitable projects. The most significant educational projects include the "Prevention Train", which is realised in cooperation with České dráhy, long-term support of the Czech Paralympics team, support of Crystalex glass makers, support of the Skutky naděje – běh naděje 2009 (Deeds of Hope – Run of Hope) project, the Winton Train project, the "Young Forwarder" project, support of the Olpa cup, a table tennis tournament for wheelchair users, support of a children's summer camp in Čekyně, support of "Turnaj Strýčka Jedličky" - a doubles tennis tournament of famous personalities, the income from which will be donated to support the Jedlička Institute, support of Global Games 2009 – global sports games for the mentally handicapped, support of the sports Olympics of Children's homes, support of the AVAZ Děčín bowling tournament for handicapped sportsmen, and support of the project called "The whole Czech Republic reads to children". In addition to these events, the Company participated in the support of significant historical anniversaries of selected railway tracks in the Czech Republic (150 years of Pardubice-Liberec and Jaroměř-Svatoňovice tracks).

Companies in which ČD Cargo has an Equity Interest

Terminal Brno, a. s.

Date of entry in the Register of Companies: 25 July 2008

Share capital: CZK 2,000,000

Equity interest: 60.5 % (CZK 1.21 million)

Principal business activities: storage of goods and handling of cargo (which includes storage of shipments related to combined transport – containers, exchangeable superstructures, and road trailers), technical activities related to transportation.

ČD Logistics, a. s.

Date of entry in the Register of Companies: 16 June 2007

Share capital: CZK 10,000,000

Equity interest: 56% (CZK 5.6 million)

Principal business activities: storage and material handling.

ČD-DUSS Terminál, a. s.

Date of entry in the Register of Companies: 1 March 2007

Share capital: CZK 4,000,000

Equity interest: 51% (2.04 million)

Principal business activities: operation of the container terminal, including additional services (ensuring collection and distribution of road shipments), and the repair and storage of storage units.

CD Generalvertretung GmbH

Date of entry in the Register of Companies: Germany 11 October 2004

Share capital: EUR 50,000

Equity interest: 100%

Principal business activities: mediation of services in freight transport on behalf of and for ČD Cargo, a.s., general representation and comprehensive information services for the clients of ČD Cargo, a.s.

Koleje Czeskie Sp. z o.o.

Date of entry in the Register of Companies: Poland, 18 December 2006

Share capital: PLN 100,000

Equity interest: 100%

Principal business activities: mediation of services in freight transport on behalf of and for ČD Cargo, a.s., general representation and comprehensive information services for clients on the territory of Poland, Lithuania, Latvia and Estonia.

CD – Generalvertretung Wien GmbH

Date of entry in the Register of Companies: Austria, 30 March 2007

Share capital: EUR 45,000

Equity interest: 100%

Principal business activities: mediation of services in freight transport, business representation on the territory of Austria, Italy, Hungary (selected areas), Switzerland and countries of former Yugoslavia.

Generálne zastúpenie ČD Cargo, s.r.o.

Date of entry in the Register of Companies: Slovakia, 24 September 2008

Share capital: EUR 6,639

Equity interest: 100%

Principal business activities: business representation and mediation activities in the area of transportation and related services.

ИООО «ЧД Транс» (approximate translation: ČD Trans, s.r.o.)

Date of entry in the Register of Companies: Belarus 21 April 2008

Share capital: USD 100,000

Equity interest: 51% (USD 51 thousand)

Principal business activities: passenger and freight transportation including the provision of services in the Brest terminal.

RAILLEX, a. s.

Date of entry in the Register of Companies: 17 June 2006

Share capital: CZK 2,000,000

Equity interest: 50% (CZK 1 million)

Principal business activities: cargo handling and technical transportation services.

BOHEMIAKOMBI, spol. s r.o.

Date of entry in the Register of Companies: 17 April 1992

Share capital: CZK 6,000,000

Equity interest: 30% (1.8 million)

Principal business activities: mediation of services in the field of transportation except for transportation by own transportation means.

Ostravská dopravní společnost, a. s.

Date of entry in the Register of Companies: 30 May 1995

Share capital: CZK 15,000,000

Equity interest: 20% (CZK 3 million)

Principal business activities: operation of railway transport and lease of locomotives.

8 Financial Position

Investment Activities of ČD Cargo, a. s.

In accordance with its business plan, the major priorities of ČD Cargo, a.s. include renovation and modernisation of the railway car pool and additional investment activities related to machinery, construction, and other investments that are crucial for carrying out the operations of the Company. To finance its investment plans, the Company uses internal and external resources. The Company's external resources predominantly include financing through leases and deferred payments (supplier loans).

Investment Activities ČD Cargo, a. s. (CZK million)

	2009	2008	2007 *)
Acquisition of freight cars	0	0	7
Reconstruction and modernisation of freight cars	1 262	1 518	107
Acquisition of motor vehicles	1	0	99
Reconstruction and modernisation of motor vehicles	502	685	114
Machinery investments	19	37	4
Construction investments	92	111	3
Other investments	165	177	147
Total investments	2 041	2 528	481
Prepayments for investments provided (as of 31 December)	77	7	1

*) Only ČD Cargo for December 2007

Prepayments for the realisation of future investments consist exclusively of prepayments for modernisation of line 163 locomotives to line 363 and modernisation of line 230 locomotives.

Balance Sheet

In the period from 31 December 2008 to 31 December 2009, the value of the Company's fixed assets increased by CZK 0.14 billion, reaching a total of CZK 12.4 billion, which equals 79.3% of its total assets. From 31 December 2008 to 31 December 2009 the Company's current assets, which include inventory, receivables and short-term assets, decreased by CZK 0.73 billion to CZK 2.9 billion, which represents 18.75% of its total assets. The value of the Company's equity in the reporting period decreased by CZK 0.05 billion to CZK 8.2 billion, which represents 52.5% of its total liabilities. External funding decreased by CZK 0.3 billion to CZK 7.4 billion in the reporting period, which represents 47.3% of its total liabilities.

Profit and Loss Account

The Company's profit before tax for 2009 amounted to CZK (378) million with aggregate sales and income of CZK 15,003 million, aggregate costs of CZK 15,381 million and accounting amortisation and depreciation charges of CZK 1,076 million. Relative to the business plan, the Company's sales and income totalled 99.5% and the aggregate costs reached 100% of the forecasted values.

Funding of ČD Cargo, a. s.

The investment and operational activities of the Company are financed via a combination of the Company's own internal cash flow and external funding, which comprises short-term bank loans and deferred or divided payments from investments and leases.

Risk Management of ČD Cargo, a. s.

On an ongoing and long-term basis, ČD Cargo, a.s. monitors and assesses all material business risks, specifically price and credit risks and liquidity risks.

Price Risk

The Company's business operations were subject to the situation on the freight and transport market in 2009. One of the outcomes of the economic recession was a decrease in demand for goods transportation; it was therefore necessary to compete with car transporters and other railway transporters for the decreased volume of goods. ČD Cargo's price policy had to be adjusted to this situation. In business negotiations, contracts for multiple years with guaranteed technological volume were preferred.

In respect of ČD Cargo, a.s., the purchase of railway cars, the repairs and modernisation thereof, including activities to secure their financing via external sources are typically deemed above-limit public contracts, which are subject to the regime of tender proceedings according to the effective Public Procurement Act.

Inspection repairs of freight cars and repairs of locomotives of higher levels are conducted similarly. Diligent use of the provisions of the Public Procurement Act enables costs related to railway cars acquisition, reconstruction, repair or modernisation to be optimised and external

funding for the costs thereof to be obtained. For modernisation and repairs of railway cars, used but repairable parts of cars suggested for disposal (such as wheel axles and undercarriages) are utilised on an ongoing basis, which allows modernisation costs to be reduced.

Liquidity Risk

The liquidity risk of the Company is managed so as to ensure that the volume of funding necessary for settling the financial liabilities is sufficient.

On a day-to-day basis, liquidity development as well as the Company's cash flow is assessed. On the basis of these analyses, decisions are made on settling liabilities, using overdraft loan facilities or the bill-of-exchange programme etc. In order to further stabilise cash flow, lease-back of some of the freight cars was realised in 2009. This funding structure creates a desired framework for ČD Cargo's financial stability with possible flexible use of individual forms.

Credit Risk

The Company operates a system to continuously monitor receivables by individual companies and default periods with a special focus on receivables past due by more than 60 days. The development of past due receivables is subject to monthly reviews by a commission managed by the CFO. One of the outputs of these reviews is a supporting document used to determine the floating component of the wages of employees involved in managing the outstanding receivables.

To provide additional collateral in support of risky receivables, standard tools in various combinations are used. To optimise the liquidity level and for the sake of decreasing the amount of receivables and payables, the Company actively pursues the netting policy, giving special attention to receivables past due by more than 60 days.

Currency Risk

Given that a significant part of the Company's income is realised in foreign currencies, predominantly in euros, the Company pays constant and systematic attention to the currency risk. To mitigate negative impacts on the Company's financial performance, a wide range of available tools are used, which are applied on a short-term as well as medium-term basis based on their underlying characteristics.

In line with internal price calculations and the anticipated income in euros, the exchange rate of the Czech crown against the euro was hedged on a medium-term basis in the latter half of 2008. By doing so, the Company mitigates the risk related to the eventual strengthening of the given currency in the medium-term prospect, ie the risk that the calculated or incurred costs in Czech crowns will not be covered. At the same time, by selecting an appropriate hedging strategy, the Company maintains the possibility of partially benefiting from the additional effect should the converse development, ie the weakening of the crown, occur.

Commodity Risk – Price of Railway Oil

Railway oil used by the Company represents a significant cost component. As the price volatility of this commodity during 2008 was high, a decision was made to hedge the price of this commodity on a medium-term basis at the end of 2008 when this commodity's prices reached the bottom levels attained in 2005 and 2006. Hence, the risk of price growth above the agreed level was mitigated.

Other Operational Risks

The Company hedges a range of operational risks by way of insurance coverage. The major risks identified include a transporting company's liability for damage caused to other parties in relation to railway transport operations on nationwide and regional tracks and liability for damage by the owners of freight railway cars.

9 Anticipated Development, Objectives and Intended Activities

In 2009, it was confirmed that ČD Cargo is a significant player on the European railway market. Maintaining, or even strengthening this position directly linked to achieving a good economic result will be one of the principal objectives indicated by ČD Cargo in its business plan.

A key task for the Company in 2010 involves increasing effectiveness of offered services.

We want to pay greater attention to concrete requirements by the customers, to become their only partner for railway transport who will convince them every day of his reliability and qualities. Railway sidings have a great potential for developing business activities. In 2010, a special team will approach customers and offer them comprehensive services related to railway transport, ie railway siding operations, loading and unloading goods or other acts connected to railway operation. We expect further development of electronic communication between ČD Cargo and customers.

The transportation volume as well as the amount of sales in 2009 will be significantly dependent upon the growth of the economy of the Czech Republic, Germany and other EU countries. A railway is significantly limited by its dependency on the transportation of bulk material – ore, solid fuels and other mineral raw materials. Therefore, one of the objectives, not only for 2010, will be higher quality of provided services and progressive increase in the share of higher added value goods transportation. In this connection, we will use the strategy of our three logistics centres, of which, the one in Lovosice develops most successfully and will have its storage capacities extended in 2010. Shipments east also have certain development potential. ČD Cargo is a co-founder of Xrail, the European Alliance for Wagonload Transport. The main objective of this alliance is to provide international railway transportation in a more effective and comfortable manner for customers, predominantly between the biggest European economic centres, their terminals and railway sidings. Membership in this alliance should increase the competitiveness of wagonload transport in Europe.

In 2010, we expect that competition will further increase, which could affect not only transports realised by ČD Cargo cars, but, in particular, transport income.

In 2010, railway operation will be negatively impacted by extensive closures. Our objective is to eliminate the impact of closures through the implementation of convenient operational and

business measures. Unfortunately, the capacity of some international tracks will also be limited, eg the track to Slovakia.

In the operational segment, it is vital to carry out further optimisation, eg in the field of use of traction vehicles and engineer. A convenient trend is to decrease the period of circulation of railway cars so that the pool is used more effectively. We also want to maintain the positive trend of increasing the weight of our cars, we will carry on in mitigating unproductive performance in stations, decreasing the number of times locomotive trains are used etc.

A great deal of effort will have to be made to improve the planning of use of regular integrated trains. In 2010, other contracts regarding quality and planning of integrated trains will be concluded with customers.

10 Share Capital

The Amount of the Issued Share Capital

As of 31 December 2008 and 31 December 2009, the share capital consists of a non-cash investment of part of the business of České dráhy, a.s. as the sole shareholder and amounts to CZK 8.8 billion. The share capital is divided into 100 ordinary registered shares in the certificate form in the amount of CZK 88 million each. Such shares are certificate shares and their transferability is restricted.

The sole shareholder of ČD Cargo, a. s., České dráhy, a.s. adopted, through general meeting, on 2 June 2009 a decision on decreasing the share capital of ČD Cargo, a. s. pursuant to Section 231a of the Commercial Code from CZK 8.8 billion to CZK 8.494 billion. The decision was taken in the form of notarial record no. 304/2009 – N355/2009 on 2 June 2009. The decrease in the value of the share capital was recorded in the Register of Companies in the following reporting period, on 5 January 2010.

Ownership Structure

Sole shareholder:

České dráhy, a. s.

Nábřeží L. Svobody 1222, Prague, 110 15

Corporate ID: 709 94 226

11 Report of the Administration Board, Supervisory Board and Audit Committee

Report of the Supervisory Board

During 2009, the Supervisory Board of ČD Cargo, a.s. executed its powers and fulfilled all tasks in compliance with legal regulations, the Company's Articles of Association, and its rules of procedure.

In compliance with Act 93/2009 Coll., on Auditors, from 26 March 2009, ie since the date the Act took effect until the appointment of members of the Audit Committee of ČD Cargo, a.s. by the sole shareholder, České dráhy, a.s. acting in its capacity as the Company's General Meeting, on 15 December 2009, the Supervisory Board also executed the function of the Audit Committee of ČD Cargo, a.s.

The Company's Supervisory Board systematically monitored the due execution of the function of the Board of Directors during the execution of business activities and checked whether the Board of Directors proceeds in compliance with legislation and the Company's Articles of Association.

The Supervisory Board noted that the Board of Directors provided all necessary and required information, supporting documents and due cooperation. The Chairman of the Board of Directors, together with other members of the Board of Directors, regularly attended all meetings of the Supervisory Board.

The Supervisory Board paid undivided attention to discussing and reviewing significant business documents, in particular the Financial Statements of ČD Cargo, a.s. for the period from 1 December 2007 to 31 December 2008 with the Auditor's Report, Proposal for the Distribution of Profit of ČD Cargo, a.s. for the period from 1 December 2007 to 31 December 2008, the Report on the Business Activities of ČD Cargo, a.s. and the Balance of its Assets for the period from 1 December 2007 to 31 December 2008, and the Related Parties Report for the period from 1 December 2007 to 31 December 2008.

It also worked on developing its relationship with the state organisation Railway Infrastructure Administration (in particular in the area of the billing costs of traction energy in ČD Cargo, a.s.)

and reviewed the proposal to update ČD Cargo, a. s.'s Business Plan for 2009 and the draft of the Company's business plan for 2010.

The Supervisory Board regularly discussed the Company's economic results at its meetings. It reviewed in detail the investment plan as part of the business plan and whether there are sufficient funds for the realisation thereof. Acting in its capacity, the Supervisory Board had many comments, ideas, statements and requirements on the documents that were accepted by the Board of the Directors.

The Supervisory Board also discussed and evaluated the request of the Company's Board of Directors for consent with specified legal acts. The Supervisory Board always granted its consent after receiving recommendations by the Company's Administration Board.

During the course of its oversight activities, the Supervisory Board did not identify that the Company or individual members of its Board of Directors were in violation of, or non-compliant with, any of its obligations under legal regulations, the Articles of Association, and the Company's internal regulations or the instructions of the sole shareholder acting in its capacity as the General Meeting.

At its eighteenth meeting, the Supervisory Board discussed the Report of the Board of Directors on the Business Activities of ČD Cargo, a.s. and the Balance of its Assets for the year ended 31 December 2009 and the Report on Related Parties Transactions for the year ended 31 December 2009 with the Auditor's Report and reviewed the following documents: the Financial Statements of ČD Cargo, a.s. for the year ended 31 December 2009 including the Independent Auditor's Report and the Proposal to Settle the Economic Result of ČD Cargo, a.s. for the year ended 31 December 2009. The Supervisory Board recommended that the sole shareholder, České dráhy, a.s., acting in the capacity as the General Meeting of ČD Cargo, a.s., approve all of the above-mentioned documents.

In Prague on 11 June 2010

Oldřich Vojříř
Chairman of the Supervisory Board

Report of the Administration Board

The ČD Cargo a.s. Administration Board acted as the Company's advisory and initiative body. In accordance with ČD Cargo, a.s.'s Articles of Association, the Administration Board is the Company's body and comprises three members elected by the sole shareholder, České dráhy, a.s., acting in the capacity as the General Meeting of ČD Cargo, a.s., on the suggestion of the Ministry of Transportation of the Czech Republic.

In the reporting period, then Administrative Board of ČD Cargo, a.s. held five ordinary meetings at which it provided the Company's bodies with expert statements, suggestions and recommendations. In addition, the Administration Board discussed and expressed its opinion on material business documents and the proposals submitted by the Company's Board of Directors. It also regularly provided its statements to the Supervisory Board of ČD Cargo a.s., when the Company's Board of Directors required the Supervisory Board to provide consent.

The Administration Board of ČD Cargo, a.s. declares that it has been provided with all conditions necessary for carrying out its activities. The Chairman of the Board of Directors, together with other members of the Board of Directors, regularly attended all meetings of the Administrative Board and provided it with relevant information and supporting documents.

In Prague on 2 June 2010

Petr Žaluda
Chairman of the Administrative Board

Report of the Company's Audit Committee

ČD Cargo, a.s.'s Audit Committee was established by the decision of the sole shareholder, České dráhy, a.s., acting in its capacity as the General Meeting of ČD Cargo, a.s. on 1 October 2009 in accordance with the relevant provisions of Act 93/2009 Coll., on Auditors, as amended, and the Company's Articles of Association. On 15 December 2009, the sole shareholder appointed three members to ČD Cargo, a.s.'s Audit Committee.

From the date Act 93/2009 Coll. came into effect until 15 December 2009, when the members of the Audit Committee were appointed, the Supervisory Board of ČD Cargo, a.s. acted in the capacity as the Audit Committee.

The Company's Audit Committee executed its duties and performed all tasks in accordance with legal regulations, the Company's Articles of Association and its rules of procedure. It systematically monitored the preparation of the Company's financial statements, the audit thereof and related documents for the period from 1 January 2009 to 31 December 2009.

The Company's Audit Committee was informed by the Company's representatives, duly and on time, about relevant information and documents related to individual steps of preparing the Company's financial statements for the period from 1 January 2009 to 31 December 2009 and the Report on Related Party Transactions for the period from 1 January 2009 to 31 December 2009.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, Deloitte Audit s.r.o, discussed and communicated selected information, and issued statements and communications according to legislation. Acting in its capacity, the Audit Committee, during the preparation of the financial statements and mandatory audit thereof, preparation of the Report on Related Party Transactions and related activities did not note any errors or breaches of legal regulations or the Company's Articles of Association by either the Company or the auditor.

With regard to the above-stated facts and after discussing the draft auditor's report on the financial statements and the contents of the draft auditor's report on the Report on Related Party Transactions, the Audit Committee recommended that the Company's bodies discuss the financial statements with the auditor's report and the report on related party transactions with

the auditor's report and that the sole shareholder acting in the capacity as the General Meeting approve the documents.

Reflecting the facts referred to above, the Company's Audit Committee notes that it complied with the obligations ensuing from legal regulations, in particular Act on Auditors 93/2009 Coll. dated 26 March 2009, the Company's Articles of Association and the conditions were sufficient for carrying out its activities.

In Prague on 20 May 2010

Oldřich Vojř
Chairman of the Audit Committee

12 Independent Auditor's Report

To the Shareholder of ČD Cargo, a.s.

Having its registered office at: Jankovcova 1569/2c, Praha 7, 170 00

Identification number: 28196678

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 14 April 2010 on the financial statements which are included in this annual report in Section 14:

“We have audited the accompanying financial statements of ČD Cargo, a.s., which comprise the balance sheet as of 31 December 2009, 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 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 ČD Cargo, a.s. as of 31 December 2009, 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 Company conducts significant business with the state-owned company Správa železniční dopravní cesty, s.o. in respect of the use of the railway route. This business arrangement is predominantly reflected in the Company's performance in the form of fees for the allocation of capacity and use of the railway route, costs of consuming traction electricity, income arising from compensation for damage caused by traffic closures, etc. The Company accounted for the relating expenses and income on the basis of its understanding of the relevant contracts and/or the opinion of the legal counsel in respect of the consumed traction electricity. As of the financial statements date, as part of the balances receivable from and payable to Správa železniční dopravní cesty, s.o. the Company reports a receivable of CZK 86 million in compensation for damage caused by traffic closures in 2008 and 2009 which has not yet been fully confirmed by the counterparty.

Negotiations are also underway concerning the price of traction electricity supplied for 2009 where the counterparty is seeking an additional payment of CZK 240 million. ”

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of ČD Cargo, a.s. for the year ended 31 December 2009 which is included in this annual report in Section 16. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of ČD Cargo, a.s. for the year ended 31 December 2009 contains material factual misstatements.

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 31 August 2010

Audit firm:

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

Statutory auditor:

Václav Loubek
certificate no. 2037

13 Financial Statements of ČD Cargo, a. s.

BALANCE SHEET full version		ČD Cargo, a.s. Corporate ID 28196678			
		As of 31.12.2009 (in CZK thousand)		Jankovcova 1569 170 00 Praha 7	
		31.12.2009			31.12.2008
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	29 595 066	13 923 431	15 671 635	15 987 448
B.	Fixed assets	26 283 560	13 859 728	12 423 832	12 282 281
<i>B.I.</i>	<i>Intangible fixed assets</i>	407 135	172 549	234 586	260 833
B.I.1.	Start-up costs	28 492	9 972	18 520	24 218
B.I.3.	Software	280 802	159 457	121 345	157 142
B.I.4.	Valuable rights	10 365	3 120	7 245	3 485
B.I.7.	Intangible fixed assets under construction	87 476		87 476	75 988
<i>B.II.</i>	<i>Tangible fixed assets</i>	25 810 097	13 687 179	12 122 918	11 967 135
B.II.1.	Land	113 034		113 034	72 616
B.II.2.	Structures	1 062 918	535 233	527 685	440 422
B.II.3.	Individual movable assets and sets of movable assets	18 850 225	12 372 583	6 477 642	6 120 844
B.II.6.	Other tangible fixed assets	48		48	19
B.II.7.	Tangible fixed assets under construction	101 379		101 379	120 602
B.II.8.	Prepayments for tangible fixed assets	71 082		71 082	6 490
B.II.9.	Valuation difference on acquired assets	5 611 411	779 363	4 832 048	5 206 142
<i>B.III.</i>	<i>Non-current financial assets</i>	66 328		66 328	54 313
B.III.1.	Equity investments in subsidiaries	41 984		41 984	28 442
B.III.2.	Equity investments in associates	24 344		24 344	25 871
C.	Current assets	3 001 492	63 703	2 937 789	3 668 217
<i>C.I.</i>	<i>Inventories</i>	141 680		141 680	162 727
C.I.1.	Material	141 680		141 680	162 727
<i>C.II.</i>	<i>Long-term receivables</i>	39 380		39 380	19 487
C.II.1.	Trade receivables	24 181		24 181	
C.II.2.	Receivables - controlling entity				19 200
C.II.3.	Receivables - substantial influence	14 400		14 400	
C.II.5.	Long-term prepayments made	621		621	109
C.II.7.	Other receivables	178		178	178
<i>C.III.</i>	<i>Short-term receivables</i>	2 624 781	63 703	2 561 078	3 242 019
C.III.1.	Trade receivables	1 815 769	63 703	1 752 066	2 273 723
C.III.2.	Receivables - controlling entity	306 000		306 000	306 000
C.III.3.	Receivables - substantial influence	9 600		9 600	4 800
C.III.6.	State - tax receivables	11 393		11 393	16 201
C.III.7.	Short-term prepayments made	59 186		59 186	78 338
C.III.8.	Estimated receivables	362 807		362 807	507 153
C.III.9.	Other receivables	60 026		60 026	55 804
<i>C.IV.</i>	<i>Current financial assets</i>	195 651		195 651	243 984
C.IV.1.	Cash on hand	2 195		2 195	2 739
C.IV.2.	Cash at bank	193 456		193 456	241 245
D. I.	Other assets	310 014		310 014	36 950
D.I.1.	Deferred expenses	310 014		310 014	36 950

		31.12.2009	31.12.2008
	TOTAL LIABILITIES & EQUITY	15 671 635	15 987 448
A.	Equity	8 230 296	8 282 225
<i>A.I.</i>	<i>Share capital</i>	8 800 000	8 800 000
A.I.1.	Share capital	8 800 000	8 800 000
<i>A.II.</i>	<i>Capital funds</i>	-484 634	-901 561
A.II.1.	Share premium	138 540	138 540
A.II.3.	Gains or losses from the revaluation of assets and liabilities	-623 174	-1 040 101
<i>A.III.</i>	<i>Statutory funds</i>	245 313	80 522
A.III.1.	Statutory reserve fund / Indivisible fund	60 653	
A.III.2.	Statutory and other funds	184 660	80 522
<i>A.IV.</i>	<i>Retained earnings</i>	97 331	
A.IV.1.	Accumulated profits brought forward	97 331	
<i>A.V.</i>	<i>Profit or loss for the current period (+ -)</i>	-427 714	303 264
B.	Liabilities	7 409 147	7 681 019
<i>B.I.</i>	<i>Reserves</i>	41 659	54 424
B.I.4.	Other reserves	41 659	54 424
<i>B.II.</i>	<i>Long-term liabilities</i>	2 331 377	1 562 304
B.II.5.	Long-term prepayments received	163 044	306 107
B.II.9.	Other payables	1 864 999	1 111 226
B.II.10.	Deferred tax liability	303 334	144 971
<i>B.III.</i>	<i>Short-term liabilities</i>	5 003 328	5 059 714
B.III.1.	Trade payables	2 595 909	2 840 691
B.III.4.	Payables to partners and association members		169
B.III.5.	Payables to employees	283 783	281 045
B.III.6.	Social security and health insurance payables	123 391	131 518
B.III.7.	State - tax payables and subsidies	246 605	106 957
B.III.8.	Short-term prepayments received	136 135	157 440
B.III.9.	Bonds issued	1 013 500	
B.III.10.	Estimated payables	217 127	214 110
B.III.11.	Other payables	386 878	1 327 784
<i>B.IV.</i>	<i>Bank loans and borrowings</i>	32 783	1 004 577
B.IV.2.	Short-term bank loans	32 783	1 004 577
C. I.	Other liabilities	32 192	24 204
C.I.1.	Accrued expenses	30 035	24 201
C.I.2.	Deferred income	2 157	3

PROFIT AND LOSS ACCOUNT structured by the nature of expense method		ČD Cargo, a.s. Corporate ID 28196678	
Year ended 31.12.2009 (in CZK thousand)		Jankovcova 1569 170 00 Praha 7	
		Year ended 31.12.2009	13 months ended 31.12.2008
II.	Production	13 324 697	18 590 073
II.1.	Sales of own products and services	13 271 743	18 499 488
II.3.	Own work capitalised	52 954	90 585
B.	Purchased consumables and services	7 698 363	11 795 472
B.1.	Consumed material and energy	2 150 243	3 042 369
B.2.	Services	5 548 120	8 753 103
+	Added value	5 626 334	6 794 601
C.	Staff costs	4 956 148	5 600 370
C.1.	Payroll costs	3 651 118	4 033 816
C.2.	Remuneration to members of statutory bodies	5 332	7 342
C.3.	Social security and health insurance costs	1 090 008	1 357 602
C.4.	Social costs	209 690	201 610
D.	Taxes and charges	4 669	2 075
E.	Depreciation of intangible and tangible fixed assets	1 076 318	1 024 874
III.	Sales of fixed assets and material	1 312 321	110 621
III.1.	Sales of fixed assets	1 256 730	68 163
III.2.	Sales of material	55 591	42 458
F.	Net book value of fixed assets and material sold	962 384	25 066
F.1.	Net book value of sold fixed assets	954 614	8 870
F.2.	Book value of sold material	7 770	16 196
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-15 454	-155 890
IV.	Other operating income	183 495	310 085
H.	Other operating expenses	130 526	167 748
*	Operating profit or loss	7 559	551 064
VII.	Income from non-current financial assets	10 250	2 976
VII.3.	Income from other non-current financial assets	10 250	2 976
IX.	Income from the revaluation of securities and derivatives	1	1 350
L.	Costs of the revaluation of securities and derivatives	376 087	32 000
X.	Interest income	5 093	1 713
N.	Interest expenses	43 218	51 408
XI.	Other financial income	157 169	204 612
O.	Other financial expenses	148 641	271 158
*	Financial profit or loss	-395 433	-143 915
Q.	Income tax on ordinary activities	49 332	103 885
Q 1.	- due	5 834	77 943
Q 2.	- deferred	43 498	25 942
**	Profit or loss from ordinary activities	-437 206	303 264
XIII.	Extraordinary income	9 737	
R.	Extraordinary expenses	245	
*	Extraordinary profit or loss	9 492	
***	Profit or loss for the current period (+/-)	-427 714	303 264
****	Profit or loss before tax	-378 382	407 149

STATEMENT OF CHANGES IN EQUITY							ČD Cargo, a.s.
							Corporate ID 28196678
Year ended 31.12.2009 (in CZK thousand)							Jankovcova 1569 170 00 Praha 7
	Share capital	Capital funds	Statutory and other funds	Statutory reserve fund	Accumulated profits brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2007	8 800 000	197 658	68 342				9 066 000
Revaluation of non-current financial assets		5 353					5 353
Change of fair value of hedging derivatives		-1 295 784					-1 295 784
Change in deferred tax on financial derivatives		250 331					250 331
Creation of the social fund from the share premium		-59 119	59 119				
Use of the social fund			-46 938				-46 938
Profit or loss for the current period						303 264	303 264
Balance at 31 December 2008	8 800 000	-901 561	80 522			303 264	8 282 225
Allocation to the reserve fund				60 653		-60 653	
Distribution of profit or loss					97 331	-97 331	
Revaluation of non-current financial assets		9 815					9 815
Change of fair value of hedging derivatives		521 977					521 977
Change in deferred tax on financial derivatives		-114 865					-114 865
Creation of the social fund			145 280			-145 280	
Use of the social fund			-41 142				-41 142
Profit or loss for the current period						-427 714	-427 714
Balance at 31 December 2009	8 800 000	-484 634	184 660	60 653	97 331	-427 714	8 230 296

CASH FLOW STATEMENT		ČD Cargo, a.s. Corporate ID 28196678	
Year ended 31.12.2009 (in CZK thousand)		Jankovcova 1569 170 00 Praha 7	
		Year ended 31.12.2009	13 months ended 31.12.2008
P.	Opening balance of cash and cash equivalents	243 984	27 945
	<i>Cash flows from ordinary activities</i>		
Z.	Profit or loss from ordinary activities before tax	-387 874	407 149
A.1.	Adjustments for non-cash transactions	758 697	903 825
A.1.1.	Depreciation of fixed assets	1 076 318	1 024 874
A.1.2.	Change in provisions and reserves	-15 454	-155 890
A.1.3.	Profit/(loss) on the sale of fixed assets	-302 116	-59 292
A.1.5.	Interest expense and interest income	38 125	49 694
A.1.6.	Adjustments for other non-cash transactions	-38 176	44 439
A.*	Net operating cash flow before changes in working capital	370 823	1 310 974
A.2.	Change in working capital	287 464	1 317 556
A.2.1.	Change in operating receivables and other assets	320 541	5 897
A.2.2.	Change in operating payables and other liabilities	-54 124	1 375 962
A.2.3.	Change in inventories	21 047	-64 303
A.**	Net cash flow from operations before tax and extraordinary items	658 287	2 628 530
A.3.	Interest paid	-43 218	-51 408
A.4.	Interest received	5 093	1 714
A.5.	Income tax paid from ordinary operations	-71 125	
A.6.	Receipts and expenditures relating to extraordinary activities	9 492	
A.***	Net operating cash flows	558 529	2 578 836
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-2 098 767	-2 784 852
B.2.	Proceeds from fixed assets sold	1 256 730	68 163
B.3.	Loans provided to related parties		-24 000
B.***	Net investment cash flows	-842 037	-2 740 689
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	276 317	425 069
C.2.	Impact of changes in equity	-41 142	-47 177
C.2.5.	Payments from capital funds	-41 142	-47 177
C.***	Net financial cash flows	235 175	377 892
F.	Net increase or decrease in cash and cash equivalents	-48 333	216 039
R.	Closing balance of cash and cash equivalents	195 651	243 984

GENERAL INFORMATION

Incorporation and Description of the Business

ČD Cargo, a.s. (hereinafter the “Company”) was formed following its registration in the Register of Companies held by the Municipal Court in Prague, File B, Insert 12844, on 1 December 2007 through the investment of a business part of České dráhy a.s. For detailed information refer to Note 1.6.

The Company’s registered office is located at Jankovcova 1569/2c, Prague 7, Holešovice.

As of 31 December 2009, the Company’s issued share capital is CZK 8,800,000 thousand and is fully paid in. As disclosed in Note 6, the sole shareholder acting in the capacity of the General Meeting issued a resolution on the decrease of the Company’s share capital of CZK 306,000 thousand on 2 June 2009. The share capital decrease was recorded in the Register of Companies on 5 January 2010.

The sole shareholder of the Company is České dráhy, a.s.

The principal activities of ČD Cargo, a.s. include the provision of railway transportation of goods with the set of relating services. The aim of the Company involves improving its leading position, and being the driving force, on the freight transportation market both in the Czech Republic and in the Central European region.

The principal business activity – railway transportation of goods – is structured by the nature of the flow of goods as follows:

- Local;
- Export;
- Import; and
- Transit.

Pursuant to the structure referred to above, it is appropriate to structure principal activities by commodities, i.e. by the nature of transported goods with respect to capacity requirements, requirements for vehicles, demands for operating technologies or special care of shipments:

- Transportation of solid fuels;
- Transportation of ores, metals and machinery products;

- Transportation of chemical products and liquid fuels;
- Transportation of construction material;
- Transportation of wood and paper;
- Transportation of food and agricultural products;
- Combined transportation – logistical solutions for transportation of shipments using intermodal transportation units, predominantly containers;
- Automotive; and
- Transportation of other non-classified commodities.

Principal business activities are supported by four standard products of other business activities. These focus on the provision of specific activities separate from the principal activities in terms of process:

- Operation of and transport on non-public railways – railway sidings;
- Shipment and logistical services – predominantly logistics solution for transportation of shipments;
- Lease and other management of motor vehicles; and
- Lease and other management of wagons.

With respect to the listed principal and other activities, the Company provides the following services:

- Representation in customs proceedings;
- Operation of customs warehouses;
- Storage of goods and handling of cargo;
- Road freight transportation; and
- Safety advisory for the transportation of dangerous goods.

As part of its business activities, the Company, in its role as transporter, operates almost 1,025 tariff points with dispatching authority for transportation of wagon loads and 1,177 railway sidings.

With respect to the volume of transportation, the Company is one of ten most significant railway companies in Europe and the European Union.

Relationship with SŽDC

The costs incurred in relation to Správa železniční dopravní cesty, s.o. predominantly include the fees for the allocation of capacity and use of the railway route and purchases of traction

electricity as disclosed in Notes 4.19, 4.20 and 4.22. The income of the Company predominantly includes compensation for damage from traffic closures. As of 31 December 2009, the Company records receivables and payables and estimated receivables and payables in respect of Správa železniční dopravní cesty, s.o., the aggregate net value of which represents a payable of CZK 960,989 thousand in the year ended 31 December 2009. In the period ended 31 December 2008, the aggregate net value of the receivables and payables represented a payable of CZK 1,021,410 thousand.

The Company is conducting negotiations with Správa železniční dopravní cesty, s.o. regarding the price of the purchased traction electricity during the 2009 reporting period. These negotiations have not been completed as of the balance sheet date. In accordance with the external legal opinion, the Company accounted for the costs of consumed traction electricity at the average price level of 2008 as of the balance sheet date. This price is the minimum market price at the moment when the electricity was purchased.

Organisational Structure

The organisational structure is composed of divisions directly reporting to the CEO or divisional directors:

- CEO division
- Sales Director division
- Operations Director division
- Finance Director division

The Executive Director manages common activities defined by the CEO.

In addition, the organisational structure includes operational units and repair centres for rail vehicles.

The internal organisation of the Company (principles of the organisational hierarchy, organisational structure, principal management system and authorities of organisational structure units including the responsibility and authority of managers) is determined in the Organisational Policy of ČD Cargo, a.s.

Group Identification

The Company is part of the České dráhy consolidation group. The České dráhy group provides comprehensive services relating to the operation of the railway freight and passenger

transportation and additional and complementary activities, specifically railway research, testing, telematics, accommodation and catering services. České dráhy, a. s. is the largest Czech railway transporter with a long-term tradition and contractual operator of most railway routes in the Czech Republic. The owner of the České dráhy group is the Czech Republic.

Statutory Bodies of the Company

The sole owner of the Company is České dráhy, a.s. which acts in the capacity of the general meeting, the supreme body of the Company. The statutory body of the Company is the four-member Board of Directors, the supervisory body is the six-member Supervisory Board. The advisory and initiative body is the three-member Administration Board, the members of which are appointed by the general meeting pursuant to the proposal of the Czech Republic – the Transportation Ministry. The Company established a three-member Audit Committee, the members of which were appointed by České dráhy, a.s. The Company has the CEO and the Executive Director who are not bodies of the Company.

Bodies of the Company as of 31 December 2009:

Board of Directors of ČD Cargo, a.s.

- Josef Bazala, Chairman of the Board of Directors
- Václav Andryšek, Member of the Board of Directors
- Bogdan Heczko, Member of the Board of Directors
- Rodan Šenekl, Member of the Board of Directors

České dráhy, a.s., as the sole shareholder of the Company acting in the capacity of the general meeting, recalled Petr Žaluda as a member of the Board of Directors on 30 November 2009.

Supervisory Board of ČD Cargo, a.s.

- Oldřich Vojtíš, Chairman of the Supervisory Board
- Radek Nikola, Member of the Supervisory Board
- Jindřich Nohal, Member of the Supervisory Board
- Michal Nebeský, Member of the Supervisory Board
- Milan Špaček, Member of the Supervisory Board
- Libor Joukl, Member of the Supervisory Board

There were no changes in the composition of the Supervisory Board in the year ended 31 December 2009.

Administration Board of ČD Cargo, a.s.

- Petr Žaluda, Member of the Administration Board
- Roman Boček, Member of the Administration Board
- Petr Vlasák, Member of the Administration Board

On 11 May 2009, a member of the Administration Board of ČD Cargo, a.s., Gustav Slamečka, resigned from his position using the written announcement to the Chairman of the Administration Board, Miroslav Dvořák. At its meeting held on 11 June 2009, the Administration Board of ČD Cargo, a.s. acknowledged the announcement of the resignation of Gustav Slamečka from his position in the Administration Board through its resolution No. 50/2009.

On 30 November 2009, the term in office of the Chairman of the Administration Board of ČD Cargo, a.s., Miroslav Dvořák, expired.

As of 1 December 2009, České dráhy, a.s., as the sole shareholder of the Company acting in the capacity of the General Meeting appointed the following members of the Administration Board of ČD Cargo, a.s. following the proposal by the Czech Republic – the Ministry of Transport:

- Roman Boček
- Petr Žaluda

Audit Committee of ČD Cargo, a.s.

With immediate effect, ie from 15 December 2009, České dráhy, a.s., as the sole shareholder of the Company acting in the capacity of the General Meeting, appointed the following members of the Audit Committee:

- Miroslav Zámečník
- Oldřich Vojíř
- Libor Joukl

Foundation and Formation of the Company

The Company was formed on 31 October 2007. The share capital of the Company consisted of a non-cash investment of a business part (in accordance with provisions of the Commercial Code), i.e. the comprehensive set of immovable and movable assets, intangible assets, receivables, financial assets, inventory and payables, including employees and relating rights and obligations of the part of business of České dráhy, a.s. The valuation of the non-cash investment was determined by an expert opinion pursuant to Resolution of the Municipal Court in Prague No. NC 4848/2006 – 20 dated 9 October 2006 which took effect on 24 October 2006. The subject of the expert opinion was the valuation of the non-cash investment which is represented by a business part (set of tangible, intangible and staff components of activities of České dráhy, a.s. administered by an integrated, operating and separately operating unit in freight railway transportation and maintained in separate accounting records of this unit), for the purpose of founding a wholly owned subsidiary joint stock company by the sole founder České dráhy, a.s. The expert opinion was prepared by YBN Consult – Znalecký ústav s.r.o., Václavské nám. 1, Prague 1, appointed by the Justice Minister by document with ref no. 391/93 – OOD in accordance with the provisions of Section 21 of Act No. 36/1967 Coll., and the provisions of Section 6 (1) of Regulation No. 37/1967 Coll., on economics and the construction industry; properties of construction materials and products; residential, industrial, agricultural and engineering structures and market valuation of real estate, companies and their equity investments, receivables, intangible assets, movable assets, financial assets; valuation of industrial rights and other intellectual property; valuation of shares (including trading); assessment of the impact of dangerous and toxic substances on the value of assets; transformation of companies (transformation, amalgamation, merger, demerger); assessment of the value of non-cash investments, changes in the amount of the share capital of a company; dissolution of companies, assessment of business plans, etc.

The value of the non-cash investment of the business part determined by the opinion was based on the finding that there were no doubts regarding the economic usability of the assets of České dráhy, a.s. after its investment in the newly formed joint stock company ČD Cargo, a.s. as these assets will provide for the principal business activities of the Company similarly as they did in České dráhy, a.s.

With respect to the purpose of the valuation, the value of specified financial assets was assessed using two different methods, the results of which were analysed in detail in individual parts of the valuation.

The set of the invested assets and liabilities was a standalone operational unit and it had the character of a business part for the value of which the yield potential is essential. For this reason, the value of the non-cash investment was determined using the basic yield method (discounted cash flow method) which is based on the anticipated income of a long-term operating company and its ability to generate available funds for owners. Concurrently, the equity method (i.e. non-complete substantial value on the replacement cost principle) was used as a reference method.

The calculation of the non-cash investment of a business part in Czech crowns was prepared according to documented accounting supporting documents as of 31 March 2007 and information as of 9 May 2007. In accordance with the verification of the valuation of the non-cash investment as of 1 December 2007, the value of the non-cash investment did not achieve the amount determined upon the formation of ČD Cargo, a.s. The difference of CZK 306 million was recorded as part of short-term receivables (receivables - controlling entity). As of 15 March 2010, the receivable was offset with the payable in the same amount (refer to Note 1.6).

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., as amended, 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, and Czech Accounting Standards for Businesses.

The accounting books and records are maintained in compliance with general accounting principles, specifically the requirement of fair and true presentation of assets, liabilities, equity, expenses and income and economic result, the historical cost valuation basis with certain exceptions as described in Note 3.4, the accruals principle, the prudence concept and the going concern assumption.

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

Reporting Period

The financial statements of the Company as of 31 December 2009 are prepared as follows:

- The balance sheet contains comparative information as of 31 December 2008;
- The profit and loss account contains comparative information for the period from 1 December 2007 to 31 December 2008 (the 13-month reporting period);
- The statement of changes in equity contains comparative information as of 31 December 2008/1 December 2007; and
- The cash flow statement contains comparative information for the period from 1 December 2007 to 31 December 2008 (the 13-month reporting period).

Assets and liabilities acquired by the Company as of 1 December 2007 through the investment of the business part of České dráhy pursuant to the contract for the investment of a business part in accordance with section 60 (2) together with Section 59 (5), with the reasonable use of provisions in Section 476 et seq. of Act No. 513/1991 Coll., the Commercial Code, as amended, were transferred to the accounting books and records of the Company at their carrying amounts.

Summary Of Significant Accounting Policies

Tangible 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). Land, buildings and constructions are treated as fixed assets irrespective of their cost valuation.

With respect to assets defined by Act No. 16/1993 Coll., on Road Tax, as amended, asses also include assets with an acquisition cost lower than CZK 40 thousand.

Land acquired prior to 1992 and invested as part of the non-cash investment 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 the formation of the Company 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 assets produced and generated internally by the Company are stated at the cost of production comprising direct costs and an element of administrative overheads.

Tangible assets with an acquisition cost greater than CZK 500 but less than CZK 40 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 liabilities related to finance or operating lease agreements 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:

	Depreciation method	Number of years/ %
Buildings	Straight line	20-50 / 5-2 %
Structures	Straight line	20-50 / 5-2 %
Locomotives	Straight line	20-25 / 5-4 %
Wagons	Straight line	25 / 4%
Machinery and equipment	Straight line	8 - 20 / 12.5 – 5 %

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.

Assets held under finance leases are depreciated by the lessor.

Technical improvements on leasehold tangible fixed assets are depreciated on a straight line basis over the shorter of the lease term or the estimated useful life.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognised through the profit and loss account.

The valuation difference on acquired assets is composed of a positive or negative difference between the valuation of the business or part thereof acquired and the sum of the carrying values of individual components of assets of the selling, investing or dissolving entity net of assumed liabilities. A positive difference on acquired assets is amortised to expenses on a straight line basis over 180 months from the acquisition of the business or part thereof or from the effective date of transformation.

Intangible Fixed Assets

Intangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Intangible fixed assets are carried at cost. The logo of the Company is also carried at cost. Intangible assets with an acquisition cost lower than CZK 60 thousand are expensed upon acquisition and classified in the underlying operating records.

Amortisation of intangible fixed assets is recorded on a straight line basis over their estimated useful lives as follows:

	Amortisation method	Number of years/%
Research and development	Straight line	3 / 33.3 %
Software	Straight line	3 / 33.3 %
Valuable rights	Straight line	6 / 16.7 %
Other intangible fixed assets	Straight line	6 / 16.7 %

Start-up Costs

Start-up costs include expenses relating to the formation of the Company capitalised since the date of the Company's formation. Start-up costs will be amortised over five years after the formation of the Company in accordance with Section 65a of the Commercial Code.

Patents and Trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight line basis over their estimated useful lives.

Non-Current Financial Assets

Non-current financial assets principally consist of loans with maturity exceeding one year, equity investments, securities and equity investments available for sale and debt securities with maturity over one year held to maturity.

Upon acquisition securities and equity investments are carried at cost. The cost of securities or equity investments includes the direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

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 net of provisions, if any.

Derivative Financial Transactions

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.

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 overhead costs.

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.

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.

As of the balance sheet date, provisions are recognised depending on the anticipated recoverability of receivables pursuant to the individual assessment of receivables.

Trade 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.

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. 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.

Equity

As of the Company's formation date on 1 December 2007, the investment in the Company consisted of the part of business of České dráhy (set of tangible and intangible assets, and staff components of business activities used for the railway freight transportation) in values revalued by an expert. The value of these assets listed in the Deed of Foundation as of the Company's formation date was reported as the Company's share capital and share premium.

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

The Company created a social fund. Its creation and use are stipulated by internal guidelines of the Company.

Reserves

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

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

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 complaints in freight transportation is created using a reasonable estimate of the amount of anticipated future cash outlays.

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.

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.

The initial lump-sum payment related to assets acquired under finance leases is amortised and expensed over the lease period.

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.

Taxation

Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets is calculated using the straight line method for tax purposes.

Current Tax Payables

Management of the Company has recognised a tax payable and a tax charge based on its tax calculation which follows from its understanding of the interpretation of Czech tax legislation valid at the financial statements date and believes that the amount of tax is correct in compliance with the effective Czech tax regulations. Since various interpretations of tax laws and regulations by third parties, including state administrative bodies, exist, the income tax payable reported in the Company's financial statements may change based on the ultimate opinion of the tax authorities.

Deferred Tax

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.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Government Grants

Grants received to offset costs are recognised as other operating and financial income over the period necessary to match them with the related costs. Grants received to acquire tangible and intangible fixed assets and technical improvements and grants towards interest expenses added to the cost are deducted in reporting their cost or internal cost.

Revenue and Expenses

Revenue from transportation is recognised in the period in which the transportation services were provided.

Expenses and revenue arising from these activities are recognised in the profit or loss in the period to which they relate on an accrual basis.

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.

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

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 2009	31 Dec 2008
Cash on hand and cash in transit	2 195	2 739
Cash at bank	193 456	241 245
Total cash and cash equivalents	195 651	243 984

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

Additional Information On The Balance Sheet And Profit And Loss Account

Fixed Assets

Intangible Fixed Assets

Cost

(CZK '000)

	Balance at 1 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Start-up costs	0	28 492	0	28 492	0	0	28 492
Software	59 400	177 274	1 521	235 153	52 663	7 014	280 802
Valuable rights	3 600	665	0	4 265	6 100	0	10 365
Intangible FA under construction	146 340	135 381	205 733	75 988	93 955	82 467	87 476
Total	209 340	341 812	207 254	343 898	152 718	89 481	407 135

Accumulated Amortisation

(CZK '000)

	Balance at 1 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Start-up costs	0	4 274	0	4 274	5 698	0	9 972
Software	34 171	45 361	1 521	78 011	83 457	2 011	159 457
Valuable rights	0	780	0	780	2 340	0	3 120
Total	34 171	50 415	1 521	83 065	91 495	2 011	172 549

Net Book Value

(CZK '000)

	Balance at 1 Dec 2007	Balance at 31 Dec 2008	Balance at 31 Dec 2009
Start-up costs	0	24 218	18 520
Software	25 229	157 142	121 345
Valuable rights	3 600	3 485	7 245
Intangible FA under construction	146 340	75 988	87 476
Total	175 169	260 833	234 586

In the year ended 31 December 2009, the Company recorded no significant disposals of intangible fixed assets.

Intangible fixed assets predominantly include the logo of the Company, IS formation yards, SAP upgrade, the MS EA, IS OPT licences and IS central wagon navigation.

Intangible fixed assets under construction predominantly include the development of software for the railway transportation and financial management of the Company.

Start-up Costs

Start-up costs included capitalised expenses through date of the formation of the Company of CZK 28,492 thousand; the amortisation charge in the year ended 31 December 2009 and the 13-month period ended 31 December 2008 amounted to CZK 5,698 thousand and CZK 4,274 thousand, respectively.

Tangible Fixed Assets

Cost

(CZK '000)

	Balance at 1 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Land	72 616	0	0	72 616	40 418	0	113 034
Buildings	887 094	68 376	0	955 470	107 851	403	1 062 918
Individual movable assets	16 993 852	2 758 083	711 357	19 040 578	1 832 260	2 022 613	18 850 225
- Machinery, equipment, furniture and fixtures	407 572	14 477	10 527	411 522	34 229	24 629	421 122
- Vehicles	16 559 443	2 743 606	699 498	18 603 551	1 798 031	1 992 422	18 409 160
-Low value tangible assets	26 837	0	1 332	25 505	0	5 562	19 943
Works of art	19	0	0	19	29	0	48
Tangible fixed assets under construction	192 754	2 756 494	2 828 646	120 602	1 957 878	1 977 101	101 379
Prepayments for tangible fixed assets	410	13 886	7 806	6 490	392 938	328 346	71 082
Valuation difference on acquired assets	5 484 518	126 893	0	5 611 411	0	0	5 611 411
Total	23 631 263	5 723 732	3 547 809	25 807 186	4 331 374	4 328 463	25 810 097

Accumulated Depreciation

(CZK '000)

	Balance at 1 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Buildings	495 940	19 108	0	515 048	20 493	308	535 233
Individual movable assets	12 871 426	663 108	711 357	12 823 177	1 544 850	2 028 099	12 339 928
- Machinery, equipment, furniture and fixtures	325 884	13 012	10 445	328 451	16 095	24 558	319 988
- Vehicles	12 521 018	649 643	699 544	12 471 117	1 527 786	1 997 464	12 001 439
-Low value tangible assets	24 524	453	1368	23 609	969	6 077	18 501
Valuation difference on acquired assets	0	405 269	0	405 269	374 094	0	779 363
Total	13 367 366	1 087 485	711 357	13 743 494	1 939 437	2 028 407	13 654 524

Provisions

(CZK '000)

	Balance at 1 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Individual movable assets	151 491	98 223	153 157	96 557	32 655	96 557	32 655
- <i>Vehicles</i>	151 491	98 223	153 157	96 557	32 655	96 557	32 655
Total	151 491	98 223	153 157	96 557	32 655	96 557	32 655

Net Book Value

(CZK '000)

	Balance at 1 Dec 2007	Balance at 31 Dec 2008	Balance at 31 Dec 2009
Land	72 616	72 616	113 034
Buildings	391 154	440 422	527 685
Individual movable assets	3 970 935	6 120 844	6 477 642
- <i>Machinery, equipment, furniture and fixtures</i>	81 688	83 071	68 479
- <i>Vehicles</i>	3 886 934	6 035 877	6 407 721
- <i>Low value tangible assets</i>	2 313	1 896	1 442
Works of art	19	19	48
Tangible fixed assets under construction	192 754	120 602	101 379
Prepayments for tangible fixed assets	410	6 490	71 082
Valuation difference on acquired assets	5 484 518	5 206 142	4 832 048
Total	10 112 406	11 967 135	12 122 918

During the reporting period, tangible fixed assets did not significantly decrease.

Real estate predominantly includes buildings and land. Land and buildings exclude the assets forming the railway route which are owned by the state.

Vehicles predominantly include rail vehicles (locomotives, other rail vehicles) used for the operations of the railway freight transportation. These items are provisioned in the amount of the difference between the accounting net book value and the estimated fair value (usually the net income from the sale or disposal of the assets) in the approximate amount of CZK 32,665 thousand. As of 31 December 2008, these items were provisioned to the value of CZK 96,557 thousand.

In the year ended 31 December 2009 and the 13-month period ended 31 December 2008, the Company acquired tangible fixed assets recognised in expenses in the amounts of CZK 42,878 thousand and CZK 253,827 thousand, respectively. These assets are low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life

greater than one year not reported within fixed assets. These assets are accounted for as inventory and they are expensed.

In the year ended 31 December 2009, the Company sold tangible fixed assets of CZK 17,604 thousand to RAILLEX a.s.

Fixed Assets Pledged as Security

As of 31 December 2009 and 2008, assets of the Company were not pledged as security.

Investment Grants

In the 13-month period ended 31 December 2008 and the year ended 31 December 2009, the Company received no investment grants.

Assets Held under Finance Leases

Finance Leases

(CZK '000)

Description	Date of inception	Term in months	Total lease value (net of VAT)	Payments made to ČD a.s. before 30 Nov 2007	Payables assumed from ČD as of 1 Dec 2007	Payments made at 31 Dec 2009 from the inception of the lease	Due in 2010	Due in the following years
Locomotive 709	Jan 2007	120	56 099	5 403	53 856	17 458	5 520	33 121
Wagons:								
Sgnss	Jan 2007	123	423 443	27 884	413 620	117 848	42 151	263 444
Sgnss Framework contract	–							
	Oct 2005	96	145 613	40 135	105 478	79 019	19 080	47 514
Habblinss „	Dec 2005	96	866 711	180 953	685 758	412 611	111 600	342 500
Zacns „	April 2006	96	81 276	15 523	65 753	37 135	10 440	33 701
Tadnss/Tadgnss„	May 2006	96	294 719	50 702	244 017	127 431	37 680	129 608
Sggrss 90´	Dec 2007	60	381 803	0	0	104 493	60 313	216 997
Sggrss 80´	July 2008	60	709 065	0	0	129 932	112 010	467 123
ŽNV 1145 pieces	Dec 2009	120	1 476 505	0	0	261 505	121 500	1 093 500
753.7	Dec 2008	120	776 594	0	0	34 904	79 628	662 062
Total			5 211 828	320 600	1 568 482	1 322 336	599 922	3 289 570

Note: The total lease value during the payment of instalments is impacted by the change in interest rates.

Operating Leases

In the year ended 31 December 2009, the Company held cars under operating leases. The aggregate amount of leases was CZK 74,347 thousand as of 31 December 2009. During 2009,

instalments made amounted to CZK 20,264 thousand. In the 13-month period ended 31 December 2008, the Company did not use operating leases.

Non-Current Financial Assets

Cost

(CZK '000)

	Cost				Carrying value				Carrying value
	Balance at 1 Dec 2007	Additions	Disposals	Revaluation at 31 Dec 2008	Balance at 31 Dec 2008	Additions	Transfer	Revaluation at 31 Dec 2009	Balance at 31 Dec 2009
Equity investments in subsidiaries	5 169	4 072	1 000	20 201	28 442	2 200	4 068	7 274	41 984
Equity investments in associates	4 522	36 029	0	-14 680	25 871		- 4 068	2 541	24 344
Total	9 691	40 101	1 000	5 521	54 313	2 200	0	9 815	66 328

Equity Investments in Subsidiaries

Year Ended 31 December 2009

(CZK '000)

Name of the entity	Registered office	Valuation at 31 Dec 2008	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2009
CD Generalvertretung GmbH	Kaiserstrasse 60, 60 329 Frankfurt am Main, Germany	10 255	-2 447	100	7 808	6 485	7 808
Koleje Czeskie Sp. z o.o.	Wspólna 35/5, 00 519 Warsaw, Poland	3 284	2 123	100	5 407	2 391	5 407
CD – Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Vienna, Austria	6 387	972	100	7 359	2 499	7 359
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozská 4/B, 821 09 Bratislava	2 284	3 874	100	6 159	4 617	6 159
Terminal Brno, a.s.	Brno, K terminálu 614/11, 619 00	1 213	1	60.5	2 007	3	1 214
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189, 410 02	4 136	-1 096	51	5 961	-796	3 040
ČD Trans s.r.o.	K. Marxe 19, 224005 Brest, Belarus	883	-883	51	*	*	0
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37, 110 00	4 068**)	4 730	56	19 638	8 516	10 997
Total		32 510	7 274				41 984

*) - Information was not available as of the balance sheet date

***) - The equity investment in ČD Logistics, a.s. as of 31 December 2008 was reported in equity investments in associates. The revaluation of CZK 4,730 thousand does not include CZK 2,200 thousand which represents an increase in the equity investment of 22 percent during 2009. Equity and profit or loss of the entity are preliminary unaudited figures

13-Month Period Ended 31 December 2008

(CZK '000)

Name of the entity	Registered office	Cost	Balance at 1 Dec 2007	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2008
CD GmbH	Generalvertretung Kaiser strasse 60, 60 329 Frankfurt am Main, Germany	1 375	1 375	8 880	100	10 255	5 117	10 255
Koleje Czeskie Sp. z o.o.	Wspólna 35/5, 00 519 Warsaw, Poland	749	749	2 535	100	3 284	1 670	3 284
CD – Wien GmbH	Generalvertretung Rotenturm straÙe 22/24, 1010 Vienna, Austria	1 126	0	5 261	100	6 387	3 935	6 387
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozska 4/B, 821 09 Bratislava	169	0	2 115	100	2 284	2 106	2 284
Terminal Brno, a.s.	Brno, K terminálu 614/11, 619 00	1 210	0	3	60.5	2 005	5	1 213
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189, 410 02	2 040	2 040	2 096	51	8 109	2 965	4 136
ČD Trans s.r.o.	K. Marxe 19, 224005 Brest, Belarus	756	0	127	51	1 731	-205	883
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, 152 00	1 020	1 005	-985	50	-11 348	-13 306	0
Total		8 445	5 169	20 032				28 442

The non-cash investment of the business part upon the formation of ČD Cargo, a.s. (hereinafter referred to as “ČD Cargo”) included the capital investment in the following companies: RAILLEX, a.s. (equity investment of ČD Cargo of 51 percent), ČD-DUSS Terminál, a.s. (equity investment of 51 percent), ČD Generalvertretung GmbH (equity investment of 100 percent) and Koleje Czeskie Sp. z o.o. (100 percent).

During the 13-month period ended 31 December 2008, the following companies with the equity investment of ČD Cargo were formed: Terminal Brno, a.s. (60.5 percent), Generálne zastúpenie ČD Cargo, s.r.o. (100 percent) in Slovakia, and ČD Trans s.r.o. (51 percent) in Belarus. In addition, ČD Cargo purchased the equity investment in CD – Generalvertretung Wien GmbH (100 percent), purchased the 49% equity investment in RAILLEX, a.s. and sold part of the equity investment in RAILLEX, a.s. (50 percent).

In the year ended 31 December 2009, ČD Cargo purchased an additional equity investment in ČD Logistics, a.s. (22%).

Terminal Brno, a.s.

The company was formed on 20 December 2007 through a cash investment and recorded in the Register of Companies on 25 July 2008. The share capital is CZK 2 million. The equity investment in ČD Cargo is 60.5 percent (i.e. CZK 1.21 million).

Principal activities include storage of goods and handling of cargo (storage of shipments in the combined transportation - containers, exchangeable superstructures and road semi-trailers), technical activities in transportation, real estate activity and facility management.

ČD Logistics, a.s.

The company was formed through a non-cash transaction on 17 April 2007 and recorded in the Register of Companies on 16 June 2007. The share capital amounts to CZK 10 million. ČD Cargo held the equity investment of 34% (CZK 3.4 million) and since 2 December 2009, it has held 56 % equity investment (CZK 5.6 million). The company is managed using the "German" governance method.

The company is engaged in the storage and handling of material.

ČD-DUSS Terminál, a.s.

The company was recorded in the Register of Companies on 1 March 2007. The share capital amounts to CZK 4 million. The equity investment of ČD Cargo is 51 percent (i.e. 2.04 million).

The company is engaged in operations of container terminals, including additional services (road collection and distribution of shipments, repairs stock-pile of load units).

CD Generalvertretung GmbH

The company was formed through a non-cash transaction and recorded in the Register of Companies in Germany on 11 October 2004. The share capital amounts to EUR 50 thousand. ČD Cargo is the sole owner.

The company is engaged in mediation of services in freight transportation on behalf of and for ČD Cargo, general representation, and comprehensive general information services for customers of ČD Cargo.

Koleje Czeskie Sp. z o.o.

The company was formed through a non-cash investment and recorded in the Register of Companies in Poland on 18 December 2006. The share capital is PLN 100 thousand. ČD Cargo is the sole owner.

The company is engaged in the mediation of services in freight transportation on behalf of and for ČD Cargo, general representation, comprehensive general information services for customers on the territory of Poland, Lithuania, Latvia and Estonia.

CD - Generalvertretung Wien GmbH

The company was formed on 19 March 2007 through a non-cash investment and recorded in the Register of Companies in Austria on 30 March 2007. The share capital amounts to EUR 45 thousand. ČD Cargo is the sole shareholder.

The company is engaged in mediation of services in freight transportation, business representation in Austria, Italy, parts of Hungary, Switzerland and former Yugoslavia.

Generálne zastúpenie ČD Cargo, s.r.o.

The company was formed on 4 August 2008 through a non-cash investment and recorded in the Register of Companies in Slovakia on 24 September 2008. The share capital is SKK 200 thousand. Since 5 September 2009, the share capital translated to EUR 6,639 thousand has been recorded in the Register of Companies. ČD Cargo is the sole owner.

The company is engaged in business representation and mediation services in transportation and services.

ČD Trans s.r.o.

The company was formed on 4 February 2008 through a non-cash investment and recorded in the Register of Companies in Belarus on 23 April 2008. The share capital amounts to USD 100 thousand. The equity investment of ČD Cargo is 51 percent (i.e. USD 51 thousand).

The company is engaged in transportation and transport of cargo including services in the Brest terminal.

Equity Investments in Associates

Year Ended 31 December 2009

(CZK '000)

Name of the entity	Registered office	Valuation at 31 Dec 2008	Revaluation percentage	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2009
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, 110 00	4 949	-1 365	30	11 945	-4 974	3 584
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, 702 00	16 854	3 906	20	103 801	19 531	20 760
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, 152 00	0	0	50	-5 370	5 978	0
Total		21 803	2 541				24 344

- Equity nad profit or loss of the entity are preliminary unaudited figures

- The equity investment in ČD Logistics, a.s. as of 31 December 2009 is reported in equity investments in subsidiaries.

13-Month Period Ended 31 December 2008

(CZK '000)

Name of the entity	Registered office	Cost Balance at 1 Dec 2007	Revaluation percentage	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2008
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37, 110 00	3 400	0	668	34 11 965	3 096	4 068
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, 110 00	7 022	4 522	-2 073	30 16 495	-2 206	4 949
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, 702 00	30 128	0	-13 274	20 84 270	42 433	16 854
Total		40 550	4 522	-14 679			25 871

The non-cash investment of a business part involved the equity investment into BOHEMIAKOMBI, spol. s r.o. (20 percent).

During the 13-month period ended 31 December 2008, ČD Cargo acquired equity investments in the following companies: ČD Logistics, a.s. (34 percent) and Ostravská dopravní společnost, a.s. (20 percent). In addition, ČD Cargo purchased an equity investment in BOHEMIAKOMBI, spol. s r.o. (10 percent). The fact was recorded in the Register of Companies on 27 August 2008.

RAILLEX, a.s.

The company was formed through a non-cash investment and recorded in the Register of Companies on 17 June 2006. The share capital is CZK 2 million. ČD Cargo holds the equity investment of 50 % (CZK 1 million). The company is managed in a standard method. The company is engaged in handling of cargo and technical services in transportation.

BOHEMIAKOMBI, spol. s r.o.

The company was formed through a non-cash investment and recorded in the Register of Companies on 17 April 1992. The share capital is CZK 6 million. ČD Cargo holds an equity investment of 30 percent (CZK 1.8 million). The company is engaged in mediation of services in transportation except for transportation by own vehicles.

Ostravská dopravní společnost, a.s.

The company was recorded in the Register of Companies on 30 May 1995. The share capital is CZK 15 million. The equity investment of ČD Cargo is 20 percent (i.e. CZK 3 million). The company is managed using the "German" governance method. The company is engaged in operating railway transportation and lease of locomotives.

Loans and Borrowings to Associates

							(CZK '000)	
Entity	Relation to the Company	Interest rate	Collateral	Maturity date	Currency	Nominal value	Carrying amount	
RAILLEX,a.s.	Associate	1 M Pribor + 3% p.a.		20 Dec 2013	CZK	24 000	24 000	
Total						24 000	24 000	

Of the aggregate loan of CZK 24,000 thousand, the short-term receivable amounted to CZK 9,600 thousand and the long-term receivable amounted to CZK 14,400 thousand.

Other Debt Securities Held to Maturity

The Company holds no long-term securities and equity investments not reported in Notes 4.3.1 and 4.3.2.

Inventory

(CZK '000)

	31 Dec 2009	31 Dec 2008
Spare parts and other components for rail vehicles and locomotives	50 368	57 079
Other spare parts and other low value components	63 574	79 718
Fuels and other crude oil based products	2 195	4 209
Rail switches, turntables, traversers and components for the track superstructure	7	7
Work shoes and protective supplies	1 117	2 715
Other	24 419	18 999
Total acquisition cost	141 680	162 727
Provisions		
Net balance	141 680	162 727

In the year ended 31 December 2009 and the 13-month period ended 31 December 2008, the Company recognised no provisions pursuant to the inventory count.

Short-Term Receivables

Trade Receivables

(CZK '000)

Receivables	Total	Before due date	Past due date	0-90	91-180	181-365	366-730	over 730
31 Dec 2009 gross	1 815 769	1 543 560	272 209	84 288	17 193	47 539	48 048	75 141
31 Dec 2009 provisions	-63 703	-385	-63 318	-2 214	-2 572	-13 018	-24 503	-21 011
31 Dec 2009 net	1 752 066	1 543 175	208 891	82 074	14 621	34 521	23 545	54 130
1 Dec 2008 gross	2 276 214	1 972 798	303 416	104 933	27 832	30 010	139 534	1 107
1 Dec 2008 provisions	-2 491	0	-2 491	0	0	-2 159	-111	-221
1 Dec 2008 net	2 273 723	1 972 798	300 925	104 933	27 832	27 851	139 423	886

Receivables past their due date include receivables arising from unpaid VAT by foreign railway organisations and receivables from railway organisations from the Balkans. The Company actively negotiates with debtors; these receivables are gradually repaid by foreign railway organisations specifically in the form of mutual offsets and repayment schedules.

The increase in the provision against receivables as of 31 December 2009 is predominantly due to the worsening of the payment ability of certain customers. The provision was calculated pursuant to the assessment of individual customers.

Short-Term Intercompany Receivables

Short-term trade receivables

(CZK '000)

Name of the entity	Balance at 31 Dec 2009	Balance at 31 Dec 2008
ČD, a.s.	12 494	66 755
ČD – Telematika, a.s.	29	28
Dopravní vzdělávací institut, a.s.	5	0
Traťová strojní společnost, a.s.	206	135
Výzkumný Ústav Železniční, a.s.	532	20
DPOV, a.s.	1 104	12 681
Total short-term intercompany receivables	14 370	79 619

Receivables – Controlling Entity

The investment of the business part resulted in the full payment of the registered share capital of the Company. For this reason, the Company reports no receivable for subscribed capital. The receivable of CZK 306 million as the difference between the valuation of the investment on the Company's formation date and valuation as of the Company's formation date is presented as a receivable from České dráhy as of 31 December 2009 and 2008.

Estimated Receivables

As of 31 December 2008 and 31 December 2009, the Company recognised estimated receivables as follows:

(CZK '000)

	31 Dec 2009	31 Dec 2008
Income from international transportation of wagon loads - export	43 929	41 095
Income from international transportation of wagon loads - import	38 212	64 651
Income from international transportation of wagon loads - transit	82 219	94 826
Income from local transportation of wagon loads	260	73
Other estimated receivables (lease and repairs of wagons, financial bonuses, damages)	160 991	264 399
Income from border services	37 196	41 838
Estimated receivables - ČD, a.s.	0	271
Total estimated receivables	362 807	507 153

Deferred Expenses

Deferred expenses amounted to CZK 310,014 thousand and CZK 36,950 thousand as of 31 December 2009 and 31 December 2008, respectively. As of 31 December 2008, this amount predominantly included deferred low value tangible assets and ŽDC's capacity. As of 31 December 2009, this amount predominantly included deferred low value tangible assets and ŽDC's capacity, lease instalments of CZK 261,505 thousand and deferred interest from issued bills of exchange of CZK 16,711 thousand.

Equity

Share Capital

As of 31 December 2008 and 2009, the share capital of the Company is composed of the non-cash investment of a business part of České dráhy, a.s. as the sole shareholder and amounts to CZK 8,800,000 thousand. The share capital of the Company is structured into 100 ordinary registered shares with a nominal value of CZK 88,000,000 per share. The shares of the Company are in the certificate form and their transferability is restricted.

On 2 June 2009, the sole shareholder of ČD Cargo, a.s., České dráhy, a.s., acting in the capacity of the General Meeting, adopted the resolution on the decrease in the share capital of ČD Cargo, a.s. in accordance with Section 213a of the Commercial Code, from CZK 8,800,000 thousand to CZK 8,494,000 thousand. This resolution was made by way of notarial record No. 304/2009 - N355/2009 on 2 June 2009. The share capital decrease was recorded in the Register of Companies in the following reporting period, on 5 January 2010.

Changes in Equity

Changes in equity are disclosed in the Statement of Changes of Equity as of 31 December 2009.

Gains and Losses from the Revaluation of Assets and Liabilities

	(CZK '000)	
	31 Dec 2009	31 Dec 2008
Valuation of derivatives hedging future cash flows	- 773 808	-1 295 785
Valuation of an equity investment accounted for using the equity method of accounting	15 168	5 353
Deferred tax on derivatives	135 466	250 331
Total	- 623 174	-1 040 101

Reserves

(CZK '000)

	Balance at 31 Dec 2008	Recognition	Use	Balance at 31 Dec 2009
Reserve for complaints	17 600	8 252	17 600	8 252
Reserve for legal disputes	8 000	9 017	8 000	9 017
Reserve for outstanding vacation days	28 824	24 390	28 824	24 390
Total	54 424	41 659	54 424	41 659

Long-Term Payables

(CZK '000)

	31 Dec 2009	31 Dec 2008
Long-term prepayments received	163 044	306 107
Long-term supplier payables	1 864 999	1 111 226
Total	2 028 043	1 417 333

Short-Term Payables

Aging of Short-Term Trade Payables

(CZK '000)

Payables	Total	Before due date	Past due date	0-90	91-180	181-365	366-730	over 730
31 Dec 2009	2 595 909	2 559 075	36 834	36 753	-87	158	10	0
31 Dec 2008	2 840 691	2 722 393	118 298	101 760	11 875	4 663	0	0

Intercompany Payables

Short-term trade payables

(CZK '000)

Name of the entity	Balance at 31 Dec 2009	Balance at 31 Dec 2008
ČD – Telematika, a.s.	51 912	86 544
ČD travel, s.r.o.	1 322	6 461
České dráhy a.s.	115 808	282 689
Dopravní vzdělávací institut, a.s.	-2 293	4 595
DPOV, a.s.	13 856	191 844
RAILREKLAM, spol. s r.o.	820	4 574
Traťová strojní společnost, a.s.	229	1 024
Výzkumný Ústav Železniční, a.s.	1 071	133
Total short-term payables	182 725	577 864

Estimated Payables

As of 31 December 2008 and 31 December 2009, the Company recognised estimated payables as follows:

	(CZK '000)	
	31 Dec 2009	31 Dec 2008
Unbilled non-investment supplies	69 268	39 372
Unbilled investment supplies	1 360	140
Other estimated payables (repairs and lease of wagons)	11 646	94 768
Expenses for border services	32 519	36 125
Estimated payables - ČD-Telematika, a.s.	54	5
Estimated payables - ČD, a.s.	102 280	43 700
Total estimated payables	217 127	214 110

Bank Loans

Long-Term Bank Loans

The Company used no long-term loans as of 31 December 2008 and 2009.

Short-Term Bank Loans and Short-term Financial Borrowings

Overdraft Loans

(CZK '000)				
Bank	Loan currency	Balance at 31 Dec 2009	Interest rate	Form of collateral
Československá obchodní banka, a.s.	CZK	32 783	O/N Pribor+0.7 p.a.	No collateral
Komerční banka, a.s.	CZK	0	O/N Pribor+1.4 p.a.	No collateral
Total		32 783		

(CZK '000)				
Bank	Loan currency	Balance at 31 Dec 2008	Interest rate	Form of collateral
Československá obchodní banka, a.s.	CZK	632 883	O/N Pribor+0.7 p.a.	No collateral
Komerční banka, a.s.	CZK	371 694	O/N Pribor+0.5 p.a.	No collateral
Total		1 004 577		

Bonds Issued

On 13 July 2009, the Company began issuing bonds. The aggregate amount of these transactions was CZK 1,013,500 thousand with maturity of six months as of 31 December 2009. The due interest is accrued over 6 months, refer to Note 4.7.

Derivative Financial Instruments

(CZK '000)

	31 Dec 2009		
	Positive fair value	Negative fair value	Total
Derivatives designated as fair value hedges	0	50 000	-50 000
Derivatives designated as cash flow hedges	75 791	788 767	-712 976
Total	75 791	838 767	- 762 976

(CZK '000)

	31 Dec 2008		
	Positive fair value	Negative fair value	Total
Derivatives designated as fair value hedges	0	32 000	- 32 000
Derivatives designated as cash flow hedges	83 485	1 379 269	- 1 295 784
Total	83 485	1 411 269	- 1 327 784

To hedge foreign exchange rate losses arising from the strengthening of the Czech crown in 2008 and 2009, the Company uses currency option strategies – a combination of purchased put options and sold call options.

The aggregate monthly volume of put options amounted to EUR 15,660 thousand.

The aggregate monthly volume of call options amounted to EUR 12,250 thousand.

Hedging is contracted with renowned banks.

This hedging was concluded for 39 calendar months until December 2011.

To hedge the increase in the crude oil price pursuant to the anticipated price increase in the mid-term, the Company uses the zero cost collar strategy in the monthly volume of 1,262 mt concluded with renowned banks.

This is a hedging strategy which allows ČD Cargo, a.s. to hedge the maximum price of the purchase of the crude oil while maintaining the limited possibility of participating in the decrease in the price. There is a set zone defined by the upper and lower price.

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

The hedged item is part of the planned consumption of traction oil; these were the first purchases of oil in the relevant month.

Changes in the fair values of derivatives which are classified as cash flow hedges are recognised in equity and are reported under gains or losses from the revaluation of assets and liabilities in the balance sheet. The financial impact of settled financial derivatives is recognised in the profit and loss account under “Costs of the revaluation of securities and derivative financial instruments”.

Income Taxation

Deferred Tax

The deferred tax asset/(liability) is analysed as follows:

Deferred Tax Arising from

	(CZK '000)	
	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Net book value of fixed assets	-459 895	-427 122
Provision against fixed assets	6 204	18 346
Contractual fines and penalty	-182	-3 811
Receivables	7 158	0
Reserves	7 915	10 885
Derivatives	135 466	256 731
Total	-303 334	-144 971

	(CZK '000)	
Analysis of movements		
	1 Jan 2009	
	144 971	
Current changes charged against the profit and loss account	43 498	
Total charges against the profit and loss account	43 498	
Current changes recognised in equity	114 865	
Total recognised in equity	114 865	
31 Dec 2009	303 334	

(CZK '000)

Analysis of movements	
1 Dec 2007	369 360
Current changes charged against the profit and loss account	25 942
Total charges against the profit and loss account	25 942
Current changes recognised in equity	-250 331
Total recognised in equity	-250 331
	144 971

31 December 2008Income Tax Payable

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

(CZK '000)

	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Profit before tax	-378 382	407 149
Income tax rate	20 %	21 %
Tax at the domestic income tax rate	-75 677	85 501
Tax base adjustments (expenses/income that are not tax effective, difference between accounting and tax depreciation charges)	83 620	-4 716
Withholding tax – paid abroad	275	0
Other (deductible items, tax reliefs)	-2 384	-2 842
Total income tax on ordinary and extraordinary activities	5 834	77 943

Due Payables arising from Social Security and Health Insurance Contributions and Tax Arrears

The balance of due payables arising from social security contributions and contributions to the State employment policy was CZK 86,470 thousand and CZK 91,849 thousand as of 31 December 2009 and 31 December 2008, respectively.

The balances of due payables arising from public health insurance contributions were CZK 37,404 thousand and CZK 39,669 thousand as of 31 December 2009 and 31 December 2008, respectively.

The Company records no tax arrears to local taxation authorities.

Details of Income by Principal Activity

Year Ended 31 December 2009

(CZK '000)

	In-country	Cross-border	Total
Sales of freight transportation	9 661 076	1 885 183	11 546 259
Sales of other transportation	598 843	970 880	1 569 723
Sales of other services	139 481	16 280	155 761
Total	10 399 400	2 872 343	13 271 743

13-Month Period Ended 31 Dec 2008

(CZK '000)

	In-country	Cross-border	Total
Sales of freight transportation	12 744 784	2 906 226	15 651 010
Sales of other transportation	1 311 174	1 323 892	2 635 066
Sales of other services	201 504	11 908	213 412
Total	14 257 462	4 242 026	18 499 488

Cross-border sales include the share of the Company in the income from international transportation of goods, border services and received lease payments for the operation of wagons in foreign countries.

Income Generated with Related Parties

Year Ended 31 Dec 2009

(CZK '000)

Entity	Relation to the Company	Material	Services	Other income	Fin. income	Total
ČD – Telematika, a.s.	Fellow subsidiary	0	69	41	0	110
Traťová strojní společnost, a.s.	Fellow subsidiary	162	5 634	3	0	5 799
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	1 592	0	0	1 592
DPOV, a.s.	Fellow subsidiary	41	29 069	733	0	29 843
ČD a.s.	Parent company	416	47 913	2 896	0	51 225
Other		0	1	7	0	8
Total		619	84 278	3 680	0	88 577

Note: "Other" includes companies that are not included in the consolidation group, specifically *Dopravní vzdělávací institut, a.s.*

All related party proceeds were generated on an arm's length basis.

13-Month Period Ended 31 Dec 2008

(CZK '000)

Entity	Relation to the Company	Material	Services	Other income	Financial income	Total
ČD – Telematika, a.s.	Fellow subsidiary	0	74	21	0	95
Traťová a strojní společnost, a.s.	Fellow subsidiary	83	5 835	0	0	5 918
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	537	0	0	537
DPOV, a.s.	Fellow subsidiary	1 001	48 312	0	649	49 962
ČD a.s.	Parent company	4 188	103 405	3 973	10	111 576
Total		5 272	158 163	3 994	659	168 088

All related party proceeds were generated on an arm's length basis.

Purchases from Related Parties

Year Ended 31 December 2009

(CZK '000)

Entity	Relation to the Company	Material	Services	Other expenses	Total
ČD – Telematika, a.s.	Fellow subsidiary	3 513	121 788	6	125 307
Traťová strojní společnost, a.s.	Fellow subsidiary	0	673	28	701
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	900	0	0	900
DPOV, a.s.	Fellow subsidiary	7 833	55 142	1 079	64 054
ČD, a.s.	Parent company	675 576	197 091	40 585	913 252
Other		820	44 011	137	44 968
Total		688 642	418 705	41 835	1 149 182

Note: "Other" includes certain entities that are not included in the consolidation group, specifically Dopravní vzdělávací institut, a.s., RAILREKLAM, spol.s r.o. and ČD travel, s.r.o.

13-Month Period Ended 31 Dec 2008

(CZK '000)

Entity	Relation to the Company	Material	Services	Other expenses	Total
ČD – Telematika, a.s.	Fellow subsidiary	18 329	147 381	0	165 710
Traťová strojní společnost, a.s.	Fellow subsidiary	0	1 545	0	1 545
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	35	133	0	168
DPOV, a.s.	Fellow subsidiary	13 856	59 053	0	72 909
ČD, a.s.	Parent company	1 178 691	706 212	233 536	2 118 439
Other		1 051	108 235	0	109 286
Total		1 211 962	1 022 559	233 536	2 468 057

Note: "Other" includes certain entities that are not included in the consolidation group, specifically Dopravní vzdělávací institut, a.s., RAILREKLAM, spol.s r.o. and ČD travel, s.r.o.

Purchases and Sales of Fixed Assets and Non-Current Financial Assets with Related PartiesSales

In the year ended 31 December 2009, the Company sold tangible fixed assets to RAILLEX, a.s. in the amount of CZK 17,604 thousand.

In the 13-month period ended 31 December 2008, the Company sold tangible fixed assets to ČD, a.s. in the amount of CZK 25,221 thousand.

Purchases

Year Ended 31 December 2009

(CZK '000)

Entity	Relation to the Company	Intangible FA	Tangible FA	Total
ČD, a.s.	Parent company	0	41 435	41 435
ČD – Telematika, a.s.	Fellow subsidiary	28 775	7 838	36 613
Traťová strojní společnost, a.s.	Fellow subsidiary	0	541	541
DPOV, a.s.	Fellow subsidiary	0	179 232	179 232
Total		28 775	229 046	257 821

13-Month Period Ended 2008

(CZK '000)

Entity	Relation to the Company	Intangible FA	Tangible FA	Total
ČD, a.s.	Parent company	20	144 419	144 439
ČD – Telematika, a.s.	Fellow subsidiary	26 255	50 191	76 446
Traťová strojní společnost, a.s.	Fellow subsidiary	0	391	391
DPOV, a.s.	Fellow subsidiary	0	607 443	607 443
Total		26 275	802 444	828 719

Consumed Purchases

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Consumed material	394 035	518 384
Consumed energy	1 189 293	1 637 348
Consumed fuels	566 915	886 637
Total consumed purchases	2 150 243	3 042 369

Consumed energy in the year ended 31 December 2009 and the 13-month period ended 31 December 2008 includes consumed traction energy purchased from SŽDC, s.o. in the amount of CZK 1,079,513 thousand and CZK 1,350,671 thousand, respectively.

Services

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Repairs and maintenance	822 679	1 594 062
Travel expenses	46 456	58 125
Representation costs	3 544	5 030
Telecommunication, data and postal services	89 766	156 714
Other rental	74 410	106 738
Use of the railway route, operations control	2 560 443	4 498 762
Lease for wagons	617 957	822 610
Lease for motor vehicles	5 028	27 764
Transportation fee	195 598	283 544
Costs of general representation	68 458	42 193
Lease	445 036	298 633
Border services	147 321	237 269
Promotion, advertising	186 473	244 759
Healthcare	32 601	36 635
Other services	252 350	340 265
Total	5 548 120	8 753 103

The services for the use of the railway route and operations control are expenses incurred with respect to SŽDC, s.o.

Depreciation of Intangible and Tangible Fixed Assets

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Depreciation of intangible and tangible fixed assets	702 224	619 605
Amortisation of a positive valuation difference on acquired assets	374 094	405 269
Total depreciation	1 076 318	1 024 874

Other Operating Income

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Claims for damages	31 979	135 838
Subsidies – accompanying social programme	89 300	37 000
Gain of material	5 960	47 004
Sundry operating income	56 256	90 243
Total	183 495	310 085

Claims for damages also include the income from compensation received for damage caused by traffic closures of SŽDC, s.o.

Other Operating Expenses

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Uniforms and lump sum payments to employees	7 376	24 295
Insurance payments	57 915	63 466
Compensation of damage	35 110	14 161
Membership fees	1 113	6 852
Sundry operating expenses	29 012	58 974
Total	130 526	167 748

Income from Non-Current Financial Assets

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Profit shares	10 250	2 976
Total	10 250	2 976

Interest Income

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Interest on current bank accounts	5 031	1 663
Interest taxed using a special tax rate	0	49
Other interest received from other debtors	62	1
Total	5 093	1 713

Other Financial Income

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Foreign exchange rate gains	157 166	203 224
Sundry financial income	3	1 388
Total	157 169	204 612

Other Financial Expenses

(CZK '000)

	Year ended 31 Dec 2009	13-month period ended 31 Dec 2008
Foreign exchange rate losses	145 664	229 480
Expenses arising from derivative transactions	0	38 260
Sundry financial expenses	2 977	3 418
Total	148 641	271 158

Staff Costs and Number of Employees

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

(CZK '000)

	Number	Payroll costs	Social security and health insurance */	Other staff costs	Bonus for the members of statutory bodies	Contribution for the capital life insurance	Contribution for the pension insurance	Total staff costs
Employees	10 337	3 192 835	1 075 218	413 279	0	76 178	103 716	4 861 225
Managers	41	74 261	14 790	184	5 332	174	182	94 923
Total	10 378	3 267 096	1 090 008	413 463	5 332	76 352	103 898	4 956 148

The following table summarises the average number of the Company's employees and managers for the 13-month period ended 31 December 2008:

(CZK '000)

	Number	Payroll costs	Social security and health insurance */	Other staff costs	Bonus for the members of statutory bodies	Contribution for the capital life insurance	Contribution for the pension insurance	Total staff costs
Employees	11 690	3 819 672	1 341 668	162 179	0	92 105	72 948	5 488 572
Managers	38	87 473	15 934	1 049	7 342	0	0	111 798
Total	11 728	3 907 145	1 357 602	163 228	7 342	92 105	72 948	5 600 370

**/social security and health insurance paid by the Company*

Members of statutory, supervisory and initiative bodies were not provided with discounted fares. Management of the Company has the possibility to use benefits in kind in the form of using Company cars for private purposes.

Off Balance Sheet Commitments

On 24 February 2005, České dráhy, a.s. concluded a framework lease contract for the financing of the purchase of railway wagons under finance leases in the aggregate amount of CZK 1,200,000 thousand. České dráhy, a. s. issued a blank bill of exchange with a restrictive clause in favour of CitiLeasing, s.r.o. as collateral for the lease contracts. With effect from 1 December 2006, ownership rights for assets which are subject to leases were transferred from CitiLeasing, s.r.o. to Fortis Lease Czech, s.r.o. In accordance with the bill of exchange arrangement, the lessor will be entitled to fill in the bill of exchange sum equalling the due lease amount including accrued interest, with the limit of 40 percent of the acquisition cost net of VAT of the leased asset in the event that the lease contract is breached.

In relation to the formation of the subsidiary ČD Cargo, a. s. engaged in railway freight transportation, all rights (receivables) and payables arising from this framework lease contract with České dráhy, a. s. were transferred to the Company.

In addition, České dráhy, a.s. concluded contract no. 01/2007 with Deutsche Leasing, s.r.o. for the lease of 100 Sggmrss 90' wagons and 200 Sggrss 80' wagons on 2 August 2007. The aggregate amount of payments including the purchase price of Sggmrss 90' wagons and Sggrss wagons is CZK 381,803 thousand and CZK 709,065 thousand, respectively. These wagons were supplied by Deutsche Leasing s.r.o. on a gradual basis. Each wagon has its own repayment schedule which includes the breakdown of 60 monthly payments and the repurchase price. In relation to the formation of the subsidiary ČD Cargo, a. s., all rights from this 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 payments). Each leased asset referred to above is paid based on the individual payment schedule. 19 modernised locomotives out of the leased assets referred to above were supplied before 31 December 2009.

On 30 December 2009, ČD Cargo, a.s. concluded three contracts for the sale with a subsequent finance lease-back with Financial Found a.s., corporate ID: 27825302, for a total of

1,145 railroad vehicles with the selling price of CZK 1,161,505 thousand (net of VAT). In 2009, the extraordinary lease payment (initial lump-sum payment) payment of CZK 261,505 thousand (net of VAT) was made. The lease term was determined to be 10 years (120 even payments of CZK 10,125 thousand net of VAT).

Bank Guarantees

The below bank guarantees issued by ČSOB are issued within the liability limit of CZK 50 million with maturity within 1 year, without collateral.

Bank guarantees as of 31 December 2008 issued by ČSOB from the liability limit of CZK 50 million.

Number of guarantee contract	Bank guarantee dated	Bank guarantee in favour of	Amount of the guarantee	Validity until	Note
0202/08/10041	22 April 2008	WestInvest Waterfront Towers s.r.o.	EUR 207,000	26 Feb 2010	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 Towers s.r.o.	EUR 3,780	26 Feb 2010	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 16, 517 thousand	8 July 2010	Bank guarantee for the event that ČD Cargo will not comply with the obligations stipulated by the Contract for the Lease of Buildings and Land in the Logistics Centre in Lovosice.
1528/08/10041	4 Feb 2009	WestInvest Waterfront Towers s.r.o.	EUR 577	11 Feb 2010	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.

Post Balance Sheet Events

The sole shareholder acting in the capacity as the general meeting of ČD Cargo, a.s. adopted a resolution on 2 June 2009 regarding the decrease of the share capital of ČD Cargo, a.s. of CZK 306 million. The share capital decrease was recorded in the Register of Companies on 5 January 2010. As of 15 March 2010, this receivable was offset against the payable in the same amount (refer to Note 1.6.).

At the fifteenth meeting of the Administration Board held on 15 February 2010, Petr Žaluda was appointed Chairman of the Administration Board of ČD Cargo, a.s.

At the first meeting of the Audit Committee held on 18 February 2010, Oldřich Vojtíš was appointed Chairman of the Audit Committee of ČD Cargo, a.s.

14 Significant Subsequent Events

The sole shareholder acting in the capacity as the general meeting of ČD Cargo, a.s. adopted a resolution on 2 June 2009 regarding the decrease of the share capital of ČD Cargo, a.s. of CZK 306 million. The share capital decrease was recorded in the Register of Companies on 5 January 2010 and has been effective since that date.

At the fifteenth meeting of the Administration Board held on 15 February 2010, Petr Žaluda was appointed Chairman of the Administration Board of ČD Cargo, a.s.

At the first meeting of the Audit Committee held on 18 February 2010, Oldřich Vojtíš was appointed Chairman of the Audit Committee of ČD Cargo, a.s.

The sole shareholder acting in the capacity as the general meeting of ČD Cargo, a.s. adopted a resolution on 4 March 2010 regarding the change of the Company's Articles of Association, reducing the number of the members of the Board of Directors from five to four.

On 16 June 2010, the sole shareholder acting in the capacity of the General Meeting of ČD Cargo, a.s. removed Michal Nebeský from the position of member of the Supervisory Board of ČD Cargo, a.s., Petr Žaluda from the position of member of the Administration Board of ČD Cargo, a.s., Josef Bazala from the position of Chairman and member of the Board of Directors of ČD Cargo, a. s., and Rodan Šenekl, Václav Andryšek and Bogdan Heczko from the positions of members of the Board of Directors of ČD Cargo, a. s. Petr Žaluda, Michal Nebeský and Milan Matzenauer were appointed new members of the Board of Directors of ČD Cargo, a. s.

At their meeting on 16 June 2010, new members of the Board of Directors of ČD Cargo, a .s. elected Petr Žaluda the Chairman of the Board. In addition, the Board of Directors made a decision on an organisational change in ČD Cargo, a .s. effective from 16 June 2010 which included elimination of two positions: the Chief Executive Officer of ČD Cargo, a. s. and the Executive Director of ČD Cargo, a. s.

On 22 June 2010, the sole shareholder acting in the capacity of the General Meeting of ČD Cargo, a.s. elected Miroslav Zámečník a member of the Supervisory Board of ČD Cargo, a. s.

On 25 June 2010, the sole shareholder acting in the capacity of the General Meeting of ČD Cargo, a.s. elected Petr Bazger a member of the Board of Directors of ČD Cargo, a.s.

15 Report on Related Party Transactions

Report of the statutory body of the Company on relations between the related parties prepared pursuant to the provisions of Section 66a) (9) of Commercial Code No. 513/1991 Coll., as amended.

The Board of Directors of ČD Cargo, a.s. prepared this report for the reporting period from 1 January 2009 to 31 December 2009 in compliance with Section 66a) (9) of Act No. 513/1991 Coll., as amended.

The accuracy of the data provided in this report is subject to audit by an independent auditor. The report is attached to the annual report and the Board of Directors ensures its inclusion in the collection of documents held by the relevant Commercial Court.

Article I.

Controlling and Controlled Entity

1. Controlled Entity

Entity: ČD Cargo, a. s.

Having its registered office at: Prague 7, Holešovice, Jankovcova 1569/2c, 170 00

Corporate ID: 281 96 678

Recorded at the Commercial Court in Prague, Section B, File 12844

Josef Bazala, Chairman of the Board of Directors

Václav Andryšek, member of the Board of Directors

Rodan Senekl, member of the Board of Directors

Bogdan Heczko, member of the Board of Directors

Petr Zaluda, member of the Board of Directors until 30 November 2009

(hereinafter the "Controlled Entity")

2. Controlling entity

Entity: České dráhy, a. s.

Having its registered office at: Prague 1, nábreží L. Svobody 1222, 110 15

Corporate ID: 709 94 226

Recorded at the Commercial Court held at the Municipal Court in Prague, Section B, File 8039

Petr Zaluda, Chairman of the Board of Directors

Josef Bazala, member of the Board of Directors – until 8 December 2009

Milan Matzenauer, member of the Board of Directors

Jiří Kolář, member of the Board of Directors

Michal Nebeský, member of the Board of Directors

Petr Moravec, member of the Board of Directors – until 16 April 2009

Antonín Blažek, member of the Board of Directors from 14 May 2009

Change – a new member of the Board of Directors replacing Petr Moravec
(hereinafter the “Controlling Entity”)

Article II.

Entities Controlled by the Controlling Entity – Related Parties

- ČD Cargo, a.s., with its registered office at Jankovcova 1569/2c, Prague 7, Holešovice, 170 00, Corporate ID: 28196678, recorded at the Municipal Court in Prague, Section B, File 12844
- ČD – Telematika, a.s., with its registered office at Pernerova 2819/2c, Prague 3, 130 00, Corporate ID: 61459445, recorded at the Municipal Court in Prague, Section B, File 8938
- ČD Reality a.s., with its registered office at Václavkova 169/1, Prague 6 – Dejvice, 160 00, Corporate ID: 27195872, recorded at the Municipal Court in Prague, Section B, File 9656
- ČD Travel, s.r.o., with its registered office at Na Příkopě 988/31, Prague 1, 110 00, Corporate ID: 27364976, recorded at the Municipal Court in Prague, Section C, File 108644
- Dopravní vzdělávací institut, a.s., with its registered office at Husitská 42/22, Prague 3-Žižkov, 130 00 (hereinafter “DVI”), Corporate ID: 27378225, recorded at the Municipal Court in Prague, Section B, File 10168
- DPOV, a.s., with its registered office at Husova 635/1b, Přerov, 751 52, Corporate ID: 27786331, recorded at the Regional Court in Ostrava, Section B, File 3147
- RailReal a.s., with its registered office at Olšanská 1a, Prague 3, 130 00, Corporate ID: 26416581, recorded at the Municipal Court in Prague, Section B, File 6888
- RAILREKLAM, spol. s r.o., with its registered office at Klimentská 36/1652, Prague 1, 110 00, Corporate ID: 17047234, recorded at the Municipal Court in Prague, Section C, File 2041

- Smíchov Station Development, a.s., with its registered office at Ke Štvanici 656/3, Karlín, Prague 8, 186 00, Corporate ID: 27244164, recorded at the Municipal Court in Prague, Section B, File 9949
- Traťová strojná společnost, a.s., with its registered office at Jičínská 1605, Hradec Králové, 501 01, Corporate ID: 27467295, recorded at the Regional Court in Hradec Králové, Section B, File 2418
- Výzkumný Ústav Železniční, a.s., with its registered office at Novodvorská 1698, Prague 4, Braník, 142 01, Corporate ID: 27257258, recorded at the Municipal Court in Prague, Section B, File 10025
- Centrum Holešovice a.s., with its registered office at Revoluční 767/25, Prague 1, 110 00, Corporate ID: 27892646, recorded at the Municipal Court in Prague, Section B, File 11830
- Žižkov Station Development, a.s., with its registered office at Ke Štvanici 656/3, Karlín, Prague 3, 186 00, Corporate ID: 28209915, recorded at the Municipal Court in Prague, Section B, File 13233

(The controlled entity, the controlling entity and other entities controlled by the controlling entity are hereinafter referred to as “related entities”.)

Article III.

Reporting Period

This report is prepared for the reporting period from 1 January 2009 to 31 December 2009.

Article IV.

Contracts and Agreements Entered into between Related Entities

During the relevant reporting period, the following trade agreements were concluded between the controlled entity and the controlling entity and other entities controlled by the controlling entities:

Name of the partner company:	Number of contracts concluded during the reporting period				
	Contract for work	Purchase	Rental	Other	Total
Centrum Holešovice, a.s.	0	0	0	0	0
České dráhy, a. s.	12	8	39	85	144
ČD – Telematika, a.s.	7	0	0	21	28
ČD Reality, a.s.	0	0	0	0	0
ČD travel, s. r. o.	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	0	0	0	4	4
DPOV, a.s.	38	0	0	5	43
RailReal a.s.	0	0	0	0	0
RAILREKLAM, spol. s r. o.	0	0	0	0	0
Smíchov Station Development, a.s.	0	0	0	0	0
Traťová strojní společnost, a.s.	1	0	0	5	6
Výzkumný Ústav Železniční, a.s.	1	1	0	6	8
Žižkov Station Development, a.s.	0	0	0	0	0
TOTAL	59	9	39	126	233

The Board of Directors declares that it identified relations between the relevant related parties according to the current list of related parties and described these relations in the Report on Relations.

Article V.

Other Legal Acts between Related Entities

The controlled entity incurred no detriment in the reporting period from 1 January 2009 to 31 December 2009:

- In connection with the contracts and agreements concluded in the reporting period between the controlled entity and the controlling entity or other related parties, based on which consideration was provided or received;
- In connection with providing or receiving consideration in the reporting period pursuant to valid and effective contracts and agreements entered into between the controlled entity and the controlling entity or other related parties before 1 January 2009;
- In the reporting period from 1 January 2009 to 31 December 2009, no legal acts were realised between the controlled entity and the controlling entity or other related parties in the interest or at the initiative of the controlling entity or another related party; and
- No measures were taken or implemented by the controlled entity in the interest or at the initiative of the controlling or other related party causing detriment, benefit, advantage or disadvantage.

During the reporting period from 1 January 2009 to 31 December 2009, no legal acts were realised by the controlled entity in the interest of other related entities other than common legal acts.

Article VI.

Measures between Related Entities

During the reporting period from 1 January 2009 to 31 December 2009, no measures were taken by the controlled entity in the interest or at the initiative of another related entity other than common measures implemented by the controlling entity as the shareholder in relation to the controlled entity. All contracted consideration, provided or received by the controlled entity (which prepared this report), was offset by contracted payments. These payments were contracted with volumes, places and times similar to common practice, at arm's length, and no advantages or disadvantages were provided. The controlled entity incurred no detriment from the concluded contracts, other legal acts or measures between the related entities pursuant to Section 66a (8) of the Commercial Code.

Article VII.

Total Revenues and Costs in the Reporting Period between the Related Entities

Total revenues and costs between related entities amount to:

	(CZK '000)	
Name of the partner company:	Sales of ČD Cargo, a. s.	Purchases by ČD Cargo, a. s.
Centrum Holešovice, a.s.	0	0
České dráhy, a. s.	51 225	954 687
ČD – Telematika, a.s.	110	161 920
ČD Reality, a.s.	0	0
ČD travel, s. r. o.	0	20 890
Dopravní vzdělávací institut, a.s.	8	21 056
DPOV, a.s.	29 843	243 286
RailReal a.s.	0	0
RAILREKLAM, spol. s r. o.	0	3 022
Smíchov Station Development, a.s.	0	0
Traťová strojní společnost, a.s.	5 799	1 242
Výzkumný Ústav Železniční, a.s.	1 592	900
Žižkov Station Development, a.s.	0	0
TOTAL	88 577	1 407 003

Article VIII.

Confidentiality of Information

Confidential information includes information and facts that are part of the trade secrets of the related entities and information described as confidential by any related entity. Confidential information further comprises all trade relation information that could, in itself or in connection with other information or facts, cause detriment to any of the related entities. To avoid causing detriment to the controlled entity, the report of the statutory body of the controlled entity does not include a detailed breakdown of the above-mentioned items.

Article IX.

Conclusion

This report was prepared by the statutory body of the controlled entity, ČD Cargo, a.s., and presented to the auditor, who audits the financial statements pursuant to specific legislation. The report will be filed in the Collection of Documents maintained by the Register of Companies held by the Municipal Court in Prague.

Josef Bazala

Chairman of the Board of Directors

16 Statement of the Board of Directors

At the date of transmission of material to the approval by statutory authority of company, no necessity has arisen for processing the statement of auditor by the company board.

17 List of Abbreviations

CER.....	Community of European Railway and Infrastructure Companies
COTIF	Convention Concerning International Carriage by Rail
ČD.....	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
DKV.....	Rail vehicle depot
GŘ	General directorate
GVD	Diagram of train transportation
ISR.....	International Service Reliability (European central system for the monitoring of movements of freight wagons and consignments)
KFOR	International peace operations of NATO in Kosovo
KMPV.....	Commercial model of vehicle use
KV	rail vehicles
lokkm.....	locomotive kilometres
MS EA.....	Microsoft Enterprise Agreement
OKV	Rail vehicle repair service
OPT.....	Traffic receipts clearing
OPŘ.....	Sales and operational directorate
OSŽ.....	Railway Workers Union
OSŽD.....	Organisation for Railway Cooperation
PBIST NATO.....	NATO Planning Board for Inland Surface Transport
PHM.....	Fuels
PJ.....	Operational unit
SOKV	Rail vehicle repair service centres
SŽDC.....	Správa železniční dopravní cesty, státní organizace (Railway Infrastructure Administration, state-owned enterprise)
TSI	TAFTechnical specifications for interoperability for telematic applications for freight
UIC.....	International Union of Railways
VSP.....	General contract for the use of cars
ŽDC.....	Railway route
žst.	Railway station

18 Identification and Contact Details

Business entity:	ČD Cargo, a.s.
Registered office:	Prague 7, Holešovice, Jankovcova 1569/2c, 170 00
Corporate ID:	281 96 678
Tax ID:	CZ 281 96 678
Register court:	Prague
File no.:	File B, Insert 12844
Tel.:	+420 9722 42 100
Fax:	+420 9722 42 101
Email:	press@cdcargo.cz
Http:	www.cdcargo.cz

Customer infoline:

Tel:	+420 9722 42 255
Fax:	+420 9722 42 103
Email:	info@cdcargo.cz