

Annual Report 2010

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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. 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., the 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.



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
- 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
- Transportation of other non-classified commodities



3 | BASIC ECONOMIC INDICATORS

INDICATOR	2010	2009	2008 ^{**)}	2007 ^{*)}	Index 10/09
Structure of assets and liabilities (CZK million)					
Total assets	15 652	15 672	15 987	14 142	1,00
Fixed assets	13 045	12 424	12 282	10 392	1,05
Equity	7 967	8 230	8 282	8 999	0,97
Structure of profit/loss (CZK million)					
Operating profit or loss	-125	8	593	1 925	-16,52
Profit or loss before tax	-418	-378	474	1 394	1,10
Structure of revenues (CZK million)					
Total revenues	14 984	15 003	17 800	17 772	1,00
Sales of own products and services	14 121	13 272	17 109	17 661	1,06
Financial indicators					
Turnover of assets (total revenues/total assets)	0,96	0,96	1,11	1,26	1,00
Indebtedness (liabilities/total assets)	0,49	0,47	0,48	0,36	1,03
Liquidity (current financial assets/current liabilities)	0,07	0,05	0,05	0,05	1,40
Employees					
Average headcount recalculated to FTE (number of employees)	9 573	10 378	11 394	11 807	0,92
Total revenue per employee (CZK/employee)	1 565 198	1 445 675	1 562 209	1 505 224	1,08
Added value per employee (CZK/employee)	598 224	542 148	561 505	625 180	1,10

^{*)} Figures for ČD, a. s. – areas of activities: freight transport (Jan-Nov/2007) and for ČD Cargo, a. s., (Dec/2007). The statement of basic economic indicators presents a short-term banking loan (overdraft) for Dec/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 2010

Year 2010	As part of the recertification process, the Company obtained the ISO 9001:2008 certificate for another three years ČD Cargo, a.s. renewed the customs quality certificate— AEO (Authorised Economic Operator) —obtained on 24 September 2009 as a third firm from previous state and national European railways
Feb 2010	An agreement on establishing Xrail was signed in Zurich, with the Company in attendance
Mar 2010	First woman as an engine driver (“in preparation”) in the Company, Andrea Matějčíková, in the rail vehicle repair centre in České Budějovice Transport of the last train with fresh nuclear fuel to the Temelín power plant
Apr 2010	Participation in the international trade fair TransRussia in Moscow . Two awards were received: “Best display” and “Loyalty to the trade fair” Testing operations of the ER20 Siemens “Herkules” locomotive
May 2010	Receipt of the first 380 series locomotive for testing operations with ČD Cargo, a.s. trains. The locomotive is primarily intended for high-speed train transportation; however, it had to complete certain mileage without passengers
Jun 2010	Presentation of the Company at the Czech Raildays international trade fair in Ostrava , involving the receipt of the last 753.7 series engine from the manufacturer CZ Loko Presentation of the renovated 742.701 series locomotive from the manufacturer CZ Loko
Aug 2010	Destructive floods in North Bohemia. Damaged infrastructure with an impact on freight transport Launch of a new educational portal offering interactive education and knowledge verification
Oct 2010	Transport of three repaired transformers between Plzeň and Rakšice for the Dukovany nuclear power plant The Transport Ministry officially announced its intention to cancel certain unused secondary railway routes
Nov 2010	Conference of ČD Cargo, a.s. held in Špindlerův Mlýn : meeting of management with the most important business partners and customers Part of the modernised fourth transit railway corridor between Strančice and Benešov u Prahy was put into operation
Dec 2010	Start of the transport of pipes using ČD Cargo, a.s. trains from Turkey to Western Bohemia for the construction of the Gazela gas pipeline



5 | OPENING STATEMENT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Ladies, Gentlemen, Shareholders and Colleagues,

I am pleased to have the opportunity to present ČD Cargo's annual report for the year ended 31 December 2010. The annual report itself can be viewed as a certain reflection of our achievements, which were, I hope, numerous this past year.

Since September 2010, the Company has undergone a number of changes, with the principal aim being to strengthen the Company economically and to return it to profitability. The changes were not made only in respect of management, but also in efforts to improve and maintain good relationships with our customers, since it was necessary to swiftly reach a turning point and move the Company in the right direction. The Company's senior management was changed completely, which should bring challenges and new measures, as well as a new business policy and organisational restructuring that are anticipated to move the Company back to profitability.

Unfortunately, the Company incurred a loss in the year ended 31 December 2010; nevertheless, we managed to stabilise the Company's management to such an extent that we can expect a return to profitability in 2011. This past year, we came to understand that problems can be dealt with and that the Company has the potential to become an economically stable and progressive firm. Thus, I appreciate the work that has been done, yet I keep in mind that there is a long road to success ahead of us.

In conclusion, I would like to express my gratitude to all our customers and business partners for their trust in us. I strongly believe that ČD Cargo, a.s. will continue to be a reliable partner offering quality and comprehensive services to its existing and new customers.



Jiří Vodička
Chairman of the Board of Directors



6 | 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 four 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.

1. Jiří Vodička

Chairman of the Board of Directors (since 25 August 2010), age: 33



Jiří Vodička graduated from the Czech Technical University in Prague's Faculty of Mechanical Engineering, finishing his studies in 2000. In 2009, he earned a PhD in the Economics of Business Management at the same university. He started his career in RM-System, burza cenových papírů, where he was appointed a member of the Board of Directors and the Director for Strategy and Marketing. He held the same position in Fio banka, a.s. before joining ČD Cargo, a.s.

2. Jiří Špička

Member of the Board of Directors (since 8 September 2010); age: 48



Since 9 September 2010, Jiří Špička has worked as the Director of Operations. He graduated from the Palackého University in Olomouc, specialising in psychology, and from the railway high school in Česká Třebová, where he specialised in transportation. In 1982, he started to work in České dráhy as a railway conductor, and was then part of middle management in the business and operations directorate at Česká Třebová. Between 1997–1999, he worked in JEVIMETAL, s.r.o. as the Sales Director. From 1999–2003, he worked in České dráhy's Data and Information Services department as the Head of the Finance and Trade Department. Starting 1 June 2003, he worked in ČD's Corporate Education Division as a Deputy Director. On 1 October 2005, he began work at DVI, a.s. as the Deputy CEO and Director of the Transportation Education Centre in Česká Třebová. Before joining ČD Cargo, a.s., he was the Finance and Technical Director at DVI, a.s. from 1 June 2008 and a member of DVI, a.s.'s Board of Directors.

3. Milan Matzenauer

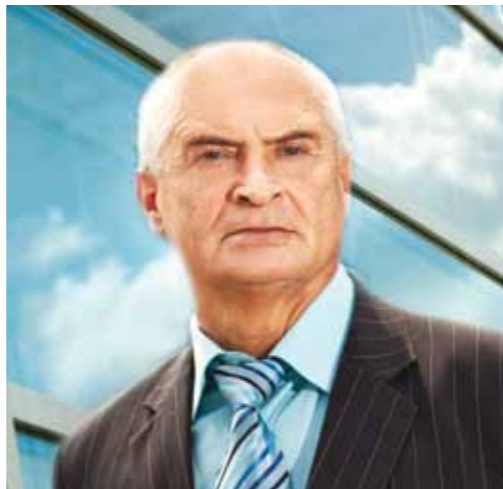
Member of the Board of Directors (since 16 June 2010), age: 60



Milan Matzenauer graduated from the Civil Engineering Faculty at the Technical University in Brno, specialising in building and transport structures. From 1973, he worked in the construction industry in various professional and leading positions. Between 1980–1989, he was a Director of IKS for construction in the North Bohemia region – Ústí n.L. From 1989–1990, he worked at DS Olomouc as the Head of the Administration of Applied Electronics and as the Management Deputy Director for Organisation, Management and Human Resources. In 1990, he was appointed Director of the state company DS Prostějov and from 1991 to 1998, he was Director of PRODOS s.r.o. Between 1998 and 2002, he worked at DSH, a.s. as the Director for Strategic Planning and Development, Specialist for Business Activities and Sales Director. Between 2002 and 2008, he was the Sales Director at Skanska DS, a.s. Since 14 November 2008, he has been a member of the Board of Directors of ČD, a.s., and since 1 December 2008 he has been Deputy Director of ČD, a.s. for Asset Administration.

4. Petr Bazger

Member of the Board of Directors (from 25 June 2010 to 31 December 2010), age: 59



From 1 July 2010 to 8 September 2010, Petr Bazger was also the Director of Operations. Before joining ČD Cargo, a.s., he worked in a number of professional and management positions. He has been a Head and Control Operator of Railway Work Management, Head of the Railway Work Management Group and Head of the Freight Transportation Sales Department. His last position was the Executive Secretary of the Association of Railway Workers.

Changes in the Composition of the Board of Directors

On 16 June 2010 and with effect from the same date, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Josef Bazala as Chairman and member of the Board of Directors, and Václav Andrýsek, Rodan Šenekl and Bogdan Heczko as members of the Board of Directors. Petr Žaluda, Michal Nebeský and Milan Matzenauer were appointed as new members of the Board of Directors.

At the extraordinary meeting of the Board of Directors held on 16 June 2010, Petr Žaluda was appointed Chairman of the Board of Directors. In addition, the positions of the CEO and Executive Director were cancelled the extraordinary meeting of the Board of Directors held on 16 June 2010.

On 25 June 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Petr Bazger as a member of the Board of Directors.

On 24 August 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Petr Žaluda from the position of a member of the Board of Directors as of 25 August 2010 at his own request. As of 25 August 2010, České dráhy, a.s. appointed Jiří Vodička to the position of a member of the Board of Directors.

At the 72nd meeting of the Board of Directors held on 25 August 2010, Jiří Vodička was appointed Chairman of the Board of Directors.

On 7 September 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Michal Nebeský from the position of a member of the Board of Directors as of 8 September 2010 at his own request. On 8 September 2010, České dráhy, a.s. appointed Jiří Špička to the position of a member of the Board of Directors.

At the 84th meeting of the Board of Directors held on 14 December 2010, Petr Bazger resigned as a member of the Board of Directors with effect from 31 December 2010.

Supervisory Board

1. Petr Žaluda

Chairman of the Supervisory Board (member since 25 August 2010, Chairman since 5 October 2010), age: 44



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 Officer 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. From 1 December 2007 to 30 November 2009, he was member of the Board of Directors of ČD Cargo, a.s. 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.

2. Michal Nebeský

Member of the Supervisory Board (from 1 December 2008 to 16 June 2010, since 8 September 2010), age: 43



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 economy 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.

3. Miroslav Zámečník

Member of the Supervisory Board (since 22 June 2010), age: 48



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.

4. Milan Špaček

Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age: 58



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.

5. Radek Nekola

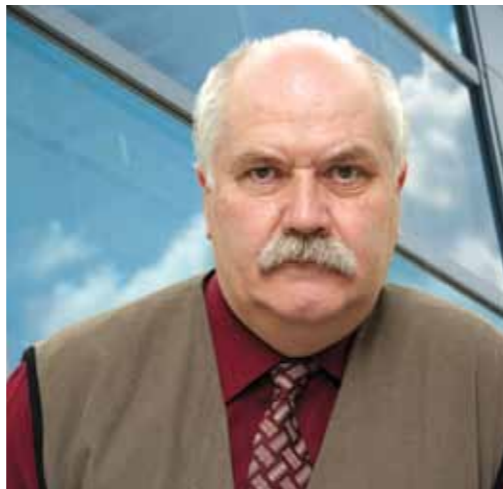
Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), for the second term of office elected by the Company's employees, age: 46



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 (since 1 December 2008, elected by the Company's employees), age: 57



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).

Changes in the Composition of the Supervisory Board

On 16 June 2010 and with effect from the same date, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Michal Nebeský as a member of the Supervisory Board.

On 22 June 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Miroslav Zámečník as a member of the Supervisory Board.

On 24 August 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Oldřich Vojtíš as a member of the Supervisory Board as of 25 August 2010 at his own request. As of 25 August 2010, České dráhy, a.s. appointed Petr Žaluda as a member of the Supervisory Board.

On 7 September 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Libor Joukl as a member of the Supervisory Board as of 8 September 2010 at his own request. On 8 September 2010, České dráhy, a.s. appointed Michal Nebeský as a member of the Supervisory Board.

At the 21st meeting of the Supervisory Board held on 5 October 2010, Petr Žaluda was appointed Chairman of the Supervisory Board.

Administration Board

1. Martin Sýkora

Chairman of the Administration Board (member since 15 September 2010, Chairman since 29 September 2010), age: 29



Martin Sýkora graduated from both the BA and MA programmes at the Police Academy in Prague. He became a member of the International Security Management Association and from 2003, he worked at ABL, a.s., first as a Security Manager and then as a Divisional Director, Deputy Director of Operations and Sales Director. He started his career at the Czech Ministry of Transportation in 2010 as a First Deputy Minister. During his work at the Czech Ministry of Transportation, he was appointed a member of the Supervisory Board of the Centre for Transportation Research. He was a member of the Supervisory Board of Řízení letového provozu and Povodí Labe. In addition, he is a member of the Academic Assembly of the Czech Academy of Sciences.

2. Jiří Franc

Member of the Administration Board (since 15 September 2010), age: 53



Jiří Franc graduated from the Faculty of Mechanical Engineering at the Czech Technical University in Prague, specialising in the Management of Engineering Companies, and he completed the Gustav Káser Training and Mercuri International professional management courses. He was the Regional Director of IPB, a.s. and ČSOB, a.s. between 2001 and 2002, and he was the Vice President for Contracts Conclusion in Aero Vodochody, a.s. From 2003 to 2005, he was the Head of the Prague Castle Administration. In 2005 and 2006, he worked in the Czech National Bank as the Deputy Director in the Section of Cash and Payment Transactions. Until 2010, he was the Executive Manager and a member of the Board of Directors of the advisory company BASCEKO, a.s. focusing on, among other things, the implementation and funding of restructuring projects in cooperation with private investors and banks. In the second half of 2010, he was the Senior Director of the Finance Section at the Czech Ministry of Transport and he was appointed Deputy Minister of the Interior for Economics and Operations on 28 October 2010.

3. Jakub Kopřiva

Member of the Administration Board (since 15 September 2010), age: 30



Jakub Kopřiva graduated from the Faculty of Law at the Palackého University in Olomouc with an MA in law and legal sciences. He started his career in 2005 at the Czech Ministry of Transport as an official in the Legislative Department. In 2006, he was appointed Director of the newly formed Legal Department. Since August 2010, he has worked at the Czech Ministry of Transport in the position of the Director of the Legislation and Legal Section. In addition to administrative law, he specialises in civil law, specifically legal relationships relating to real estate and transformation of housing associations into associations of apartment owners.

Changes in the Composition of the Administration Board

At the 15th meeting of the Administration Board held on 15 February 2010, Petr Žaluda was appointed Chairman of the Administration Board.

On 21 May 2010, the term of office of a member of the Administration Board, Petr Vlasák, expired.

On 16 June 2010 and with effect from the same date, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the general meeting, recalled Petr Žaluda as a member of the Administration Board.

On 14 September 2010, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the general meeting, recalled Roman Boček as a member of the Administration Board as of 15 September 2010 at his own request. As of 15 September 2010, České dráhy, a.s. appointed Martina Sýkora, Jiří Franc, and Jakub Kopřiva members of the Administration Board pursuant to the proposal of the Czech Republic – Ministry of Transportation.

At the 18th meeting of the Administration Board held on 29 September 2010, Martin Sýkora was appointed Chairman of the Administration Board.

Audit Committee

1. Oldřich Vojř

Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 49



Oldřich Vojř 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 Litvínov, 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. from 2005 to 2007. Between 1996 and 2010 he was member of the Chamber of Deputies of the Parliament of the Czech Republic, the member of the Economic Committee. From 2002 to 2006, he was the Deputy Chairman of the Committee, between 2006 and 2010, he was the Chairman of the Committee. He is the Chairman of the Commission for the Heat Industry Sector at the Czech Ministry of Trade and Industry.

2. Libor Joukl

Member of the Audit Committee (since 15 December 2009), age: 44



Libor Joukl graduated from the Faculty of Mechanical Engineering of the Brno University of Technology. In 1989, he joined ŽDAS in Žďár nad Sázavou, dealing with plant equipment construction and design. From 1991 to 1992, he worked as an independent agent for the PEN-TA 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

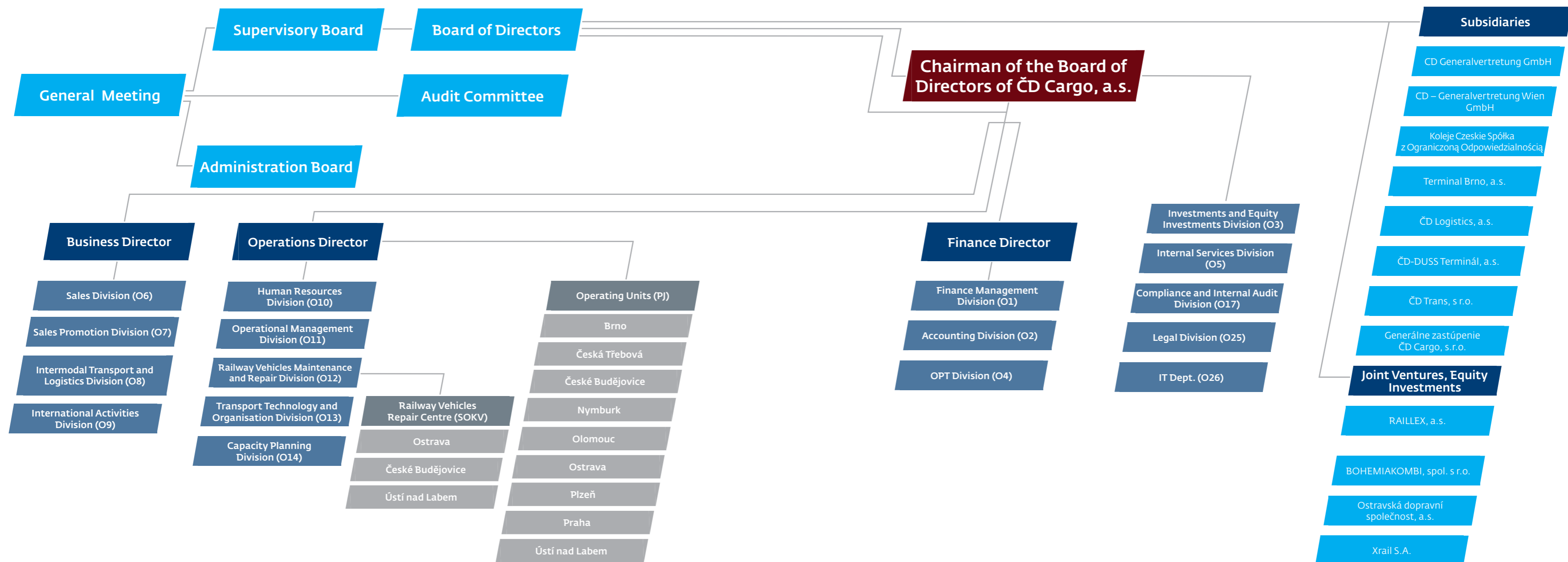
Member of the Audit Committee (since 15 December 2009), age: 48



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. He is a member of the National Economic Council of the Czech Government.



7 | ORGANISATIONAL STRUCTURE OF ČD CARGO, A. S. AT 31 DECEMBER 2010





8 | 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 2010, ČD Cargo, a.s. trains transported 76.7 million tonnes of goods, which is approximately 12.1% more than in 2009. This increase was predominantly due to combined transport (28% increase in tonnes), iron and engineering products (24.5%), and wood and paper products (13.4%). The increase in the volumes of transported automotive products at approximately 5.5% was also encouraging. In a year-on-year comparison, the worst results were in the group of food and agricultural products (-32%). The domestic transport of goods decreased year-on-year by 3.4%. On the other hand, transit transport increased by 1.2%. This increase was largely the result of the activities of ČD Cargo, a.s.'s subsidiaries abroad.

On the EU transportation market, the Company remained in the fifth position. The Company's share in the local railway transportation market amounted to 88%, which is a significant success when considering the growing competition, specifically in the sector of block trains.

The growth of transported tonnes of cargo accompanied by a slight increase in sales of transported goods was due to a revival in certain industry sectors, specifically metallurgy, as well as a pro-active business policy and internal savings measures. Sales of transported goods amounted to CZK 12.05 billion, which is an increase of 4% compared to 2009. The Company's total sales and income in the year ended 31 December 2010 amounted to CZK 15 billion. The effectiveness of the adopted savings measures is confirmed by the fact that transportation output in gross-tonne-kilometre hauled increased year-on-year by 4.4% and the average transported weight of freight trains increased from 949 tonnes to 995 tonnes, i.e. an increase of 4.9%.

The transportation of solid fuels accounted for 30% of the Company's total transports. The situation regarding this commodity, however, was not an easy one in 2010. The transport of black coal and coke increased by approximately 11%, which is predominantly a result of metallurgical companies' greater interest in these commodities. Newly, the Company supplied fuels from the CIS and completed transit transports from Poland, where the border track to Plavče was closed to traffic as a result of floods. Transports of brown coal, however, slightly decreased year-on-year. Supplies from energy companies decreased, which was a result of unfavourable weather conditions at the end of 2010 when the Company did not manage to fill all the orders owing to technical difficulties in mining, impassability of the infrastructure, and the freezing of bulk cargo in wagons. As competitors are aiming more and more to supply coal block trains to increase their share in the railway transportation market, there is a need to adjust prices and subsequently impact the amount of transport sales.

Transports of iron and engineering products were impacted positively by the overall growth in the sector. The import of iron ore to metallurgical plants in the Czech Republic could have been even more significant, but the total number was negatively impacted by the suspension of operations in the EVRAZ steelworks, along with the interruption of purchases of pig iron from AMO. The Company benefited from a range of newly obtained orders, specifically from the import of steel scrolls from France and Germany to Hyundai car manufacturers and transports of rails from Třinecké železářny to Azerbaijan through the Danube port in Bratislava. Representatives of the Company competed for a contract to supply pipes from Turkey for the construction of the Gazela gas pipeline in Western Bohemia. In supplies of individual shipments as well as other commodities, the Company lost some orders as a result of high prices of neighbouring railways, particularly in Poland.

The segment of liquid fuels and chemical products has also seen tough competition. Nevertheless, the Company has maintained the volume at the stable level of approximately 5.5 million tonnes

per year. This is predominantly thanks to the fact that the Company, unlike other railway transporters, manages to satisfy customer requirements for transport in both block trains and in individual freight wagons. This is an indisputable competitive advantage of the Company's offer. In the previous year, the Company started to cooperate closely with Agrofert Holding, and this cooperation will develop further. In cooperation with the Ministry of Transport, the Company participates in the logistics of transporting yellow phosphorus from Kazakhstan to the Czech Republic.

Although construction production continues to decline, the Company has managed to maintain the transport of construction material at the 2009 level. Such transport largely includes the transport of desulphurising commodities to power plants and dolomite limestone as a necessary raw material for metallurgical production. The Company was fairly successful in competing with other carriers and obtained a new order for supplying cinder from Ostrava to a cement factory in Horné Srnie. The Company was successful in winning over road transportation in the transport of a rather large volume (20 thousand tonnes) of calcium sulphate dehydrate from Počeradý to Austria. The Company used containers from Innofreight for these transports. The Company was impacted negatively, however, by a resolution to limit infrastructure construction.

Transports of wood and paper products increased year-on-year by more than 13%, which was thanks to the Company's use of modernised wagons. Given the rising demand for wood in the Czech Republic, the Company offered its import services to customers and thus obtained new orders for transporting more than 150 thousand tonnes of wood from Poland to Czech wood processing companies. Beating out other competitors, the Company obtained an order for imports from Germany to Hněvice. With respect to the growing demand for the transport of wood, the Company tested the loading of wood on special stake pallets located on container wagons. Similar systems were used in Austria and Germany.

The combined transport of the Company saw a significant increase in 2010. In cooperation with other operators of combined transportation, the Company increased the number of trains from/to North Sea ports. In order to increase the attractiveness of the transportation from Lovosice to Duisburg, the Company has been increasing the number of trains on this track since autumn 2010. These trains

are increasingly used to transport swap bodies and semi-trailers, much like the trains on the Lovosice–Hamburg Bilwerder track. In October 2010, a block train transporting solar panels from China arrived at the container terminal in Praha-Žižkov. It can be anticipated that this transport will become regular in the foreseeable future and the common CIM/SMGC consignment note will be used for expedition and clearance. This consignment note currently removes barriers in clearing container trains transporting disassembled cars from Mladá Boleslav to Kaluga, Russia, and in other transports. The Company is gradually developing other trans-Siberia transports as well. In the past year, the Company transported BMW car parts in containers from Altenschwandau, Bavaria, to China.

We gained a very interesting and prospective commodity – automotive. Despite the crisis in 2009, the automotive industry remains one of the most significant sectors in the Czech Republic. Part of the orders are transported by the Company in containers, like the above-mentioned transport to Kaluga, but the largest part of manufactured cars are transported on special, usually double-deck carriages. In these transports, the Company cooperates with all significant owners of the carriages. Our stable customers include all three Czech car manufacturers. The Company managed to increase the number of trains with manufactured cars from the newest car manufacturer in Nošovice, North Moravia. Thanks to its location in the middle of Europe, the Czech Republic is a significant transit country, which naturally impacts the transport of cars. In a competitive battle, the Company lost transports between Italy and Poland, but this loss was compensated by an increase in the number of transit trains between Slovakia and Germany. The automotive sector is a sector with great potential in the future, particularly in supplies of components for production.

The commodity reporting the worst results in 2010 is the transport of food and agricultural products, where the results reported 400 thousand tonnes of goods less than in 2009. This results from the situation on the market with grains and the loss of the transport of intervention grain as the Company lost this order to competitors. In autumn 2010, the Company tested the transport of potatoes from Děbolín to a customer in Horažďovice. The testing was part of the project for transporting potatoes from South Bohemia and Vysočina, which should be fully initiated in 2011. By taking this step, the Company is striving to increase transports of this commodity.

In 2010, the Company's customers saw that the Company is able to transport extraordinary and oversized shipments, the most interesting cases of which included the transport of three transformers from Plzeň to Rakšice. The transformers weighed 190 tonnes and were intended for the Dukovany nuclear power plant. At the end of summer, the Company transported the heaviest cargo in its recent history – a generator intended for the thermal power plant in Ledvice. The generator weighing 358 tonnes was transported on a special wagon with 32 axles. Additionally, we successfully transported trolleybuses to Bulgaria and bridge structures for railway infrastructure and gas turbines to Kazakhstan.

The Company also carried out army transports involving transfers of military hardware for manoeuvres for both the Czech army and foreign NATO armies. In 2010, these specifically included orders for Belgian and British armies. The military hardware of the British army was transported by rail from the base in Sennelager, Germany, and unloaded in three training locations in Brdy, Libavá and the military airport at Náměšť nad Oslavou. A very interesting event was the transport of chemical specialists from Liberec to Tallin, Estonia, and back, in mid-April 2010. The chemical protection unit of the Czech army from Liberec provided for the security of the summit of NATO foreign affairs ministers.

In the logistics sector, several successful business transactions should be mentioned. For example, in the second half of 2010, the Company started transports from Vamberk to DB Schenker's newly built logistics warehouse in Pardubice Semtín. These transports prove railway transport is able to offer competitive and reliable services for short distances. The Company extended its cooperation with Kuehne + Nagel and transported palletised goods from Spain and Germany to Turkey. These goods were transferred in Lovosice from trucks to railway wagons. Services included customs proceedings, delivery according to the customers' scheduled plan, and related commercial clearance. Thanks to this cooperation, the Company managed to transfer goods from approximately 80 trucks to the railway. Together with Nordisk Transport Rail Prague, the Company transported calcium carbide in containers from Sweden to a Czech recipient, including the reloading in Praha – Libeň and subsequent distribution and hauling of the goods.

Through its subsidiary in Bratislava, the Company transported prefabricated components from the Czech Republic for the construction of bridges at the highway close to Nitra using the Just-in-Time regime. This successfully completed project represented further transporta-

tion in combination of road–railway through the subsidiary in Frankfurt am Main.

With respect to customer relationships, the Company focused on, among other things, further promoting electronic clearance of shipments in 2010. The successful electronic cargo list project (domestic transport) continued with the electronic filing of shipments in international transportation. Both these forms of clearance are conditioned by the conclusion of a contract with the Company. At present, electronically filed shipments account for 11.5%.

Rolling Stock and Rolling Stock Management

In 2010, the Company tried to adjust the rolling stock to the needs of the transportation market with the aim of increasing the operability of wagons in international transport. The Company focused on both modernising selected wagon series and supplies of newly manufactured wagons. The order to modernise Falls wagons intended for the transport of powdery bulk cargo was completed, Zaes cistern wagons were modernised, and the supply of a minor series of Zacns modern wagons intended for transporting light petrochemical products was completed.

With respect to rolling stock management, the Company paid attention to and will continue to significantly focus on planning and using wagon capacities in 2010 and in subsequent years. The objective of these efforts is to minimise the amount of funds invested in maintaining the stock. The Company regularly assesses the use of wagon capacity as part of its reporting, and identifies key problems according to individual business groups of wagons. The redundant wagon capacity will be used in other business activities for rental needs so that the management of available rolling stock is optimised and additional sources are provided to ensure operability.

The Company's rolling stock comprised 974 traction vehicles and 27 thousand wagons. Although the financial restrictions in the expense plan continue to be in place, it can be stated that the tasks of the operations and maintenance of railway vehicles were met.

Wagons

During 2010, transportation saw a revival. In addition to standard operated wagons, orders for other series of wagons increased, which resulted in the need to expand the capacity of the rolling stock to include a group of leased wagons. The drawing of funds

from the financial plan for repairs of wagons was balanced; however, the number of completed inspection repairs was lower than anticipated. Planned repairs were completed by both external suppliers and by the Company's own capacities – in-house Railway Vehicles Servicing Centres. With respect to damage to wagons, specifically the category of damage incurred during loading/unloading, the Company recorded a higher clear-up rate in 2010, which was positively reflected in the payment of expenses incurred in the repair of wagons.

The Company purchased new wagon series – 50 Zacns cistern wagons for transporting dangerous liquids – which were supplied during the year. In modernising and renovating its wagons, the project of modernising the Falls 54 series wagons was completed. In addition, insulation properties of boilers were improved in the 50 Zaes series wagons, which related to replacing the fittings. In addition, carriages that are intended for train staff in handling trains and accompanying carriages used in transports were modernised.

In 2010, a new type of brake lining made from a special compound without the use of metal components, primarily alloy, i.e. LL non-ferrous blocks, was tested in the Eas series wagons group. The objective of the project is to test the new materials, which are more environmentally friendly and reduce noise in areas surrounding the railway.

Traction Vehicles

The development of the need for traction vehicles was similar to that of wagons. The increase in operated locomotives was recorded in both electrical and diesel traction. This was reflected in greater requirements for activities of repair shops, primarily at the year-end, when repair shops had to deal with the rise in unplanned repairs in addition to periodical maintenance, primarily owing to worsened weather conditions. Maintenance and repairs of locomotives was primarily provided by the in-house Railway Vehicles Servicing Centres. Additional maintenance capacities were provided by Depo kolejových vozidel Českých drah, a.s., and DPOV, a.s., Pířerov.

With respect to investments, the Company made partial technical improvements on locomotives and undertook major modernisations. Examples include the remodelling of the 210 series locomotive to the 218 series locomotive in the Rail Vehicle Repair Centre in

České Budějovice. At the end of the first half of 2010, 30 modernised 753.7 series locomotives and one 742.7 series prototype were supplied. The remodelling of 163 series locomotives to 363.5 series locomotives continued in 2010 and driving tests of two locomotives were started at the end of the year at the Velim railway test circuit. Other significant projects relating to electrical locomotives included the "polonisation" (ie exchange of the trolley, automatic train control, RDST and speed indicator for operations in Poland) of three 130 series locomotives, which are expected to be used to transport trains between the Czech Republic and Poland after the approval process is finalised.

In order to save funds for operating diesel locomotives, the use of FAME-type fuel instead of motor fuel was tested in a group of locomotives during 2010. This test will be assessed after the completion of the project in 2011.

Operational Management

Operational management falls under the competence of Section 11. Like throughout the Company, this section underwent several changes in 2010, both in respect of the organisational structure and staffing.

Operational Management Department

The dispatch centre of the Operational Management Department independently organises operations of the Company's freight trains, and in exceptional cases, it decides on 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 dispatch centre is organised area-wide within the Railway Infrastructure Administration (SŽDC) network. Newly, since 1 July 2010, it has been adjusted to territorial planning and in line with the need for system specialists in day shifts to carry out product planning with regard to train operations. The commodity system specialist of Section 11 plans the transportation of direct block trains in cooperation and in line with customer requirements. The transportation is organised and managed for territorial units by planning dispatchers, who are also newly charged with securing traction vehicles and locomotive crews. Compliance with the quality of product train operations is ensured by principal survey dispatchers.

All the Company's trains are scheduled by the relevant principal dispatcher of the dispatch centre through supervision operations in freight transport, head of the shift by allocated districts on the level of executive units. In 2010, the average number of trains was 1,220 trains per day.

The dispatch centre is located in Česká Třebová with divisions also in Česká Třebová and Ústí nad Labem. The Bohumín districts were transferred to Česká Třebová on 1 July 2010 as part of the first phase of centralising the dispatch centre. The shift leader for the entire ČD network is the central dispatcher, who manages the activities of DAC, coordinates the creation of a shift plan and, based on available information, issues operating measures for realising the plan. He is responsible for maintaining contact with the operator and other transportation companies, including foreign ones. He organises, coordinates and takes measures in extraordinary situations.

In order to ensure the smooth handover of trains on border crossings with Germany (Děčín – for all crossings), common controlling workplaces shared with ČDC and DB (Dispostelle) are used as a part of the DAC structure. Their mission is to coordinate the mutual handover of trains in border transit stations between the Czech Republic and Germany.

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 assigning the transportation capacity and train tracks under short deadlines (ad hoc) is increasing.

The activities of the Operational Management Department include organising the transport of extraordinary shipments, armies, and nuclear fuel, including cooperation with relevant bodies in complying with all regulations.

Freight Vehicle Operations Management Department

The dispatch management of freight vehicle operations is organised in a network-wide manner according to basic series of wagons. The central control dispatch centre is located in Česká Třebová and in two remote vehicle controller workplaces in Ústí nad Labem and Ostrava. To manage operations, the Company uses the central controlling of

ÚDIV vehicles system, which optimises the operations with available vehicles in order to optimise order fulfilment.

In 2010, an average of 21,387 freight vehicles per day were managed through the ÚDIV system.

Operational Safety

In 2010, 392 extraordinary events (EE) pursuant to Section 49 of the Act on Railways 266/1994 Coll. took place with the Company participating as the operator of railway transport or the operator of the railway, of which 163 EEs were in the Company's responsibility. The aggregate detriment arising from the EE above amounted to CZK 79,231,428, of which the Company suffered detriment worth CZK 41,795,615. During the EE, a total of 34 people were killed (during their presence in restricted areas of the railway track and in collisions at crossings). A total of 25 traction vehicles and 86 rail wagons owned by the Company derailed.

The results of the investigations of the 2010 EEs are as follows:

- There was a slight year-on-year increase in the number of monitored quantities in respect of all indicators referred to above. On average, the increase amounts to 14%;
- Positive findings include the fact that the number of people killed in railway operations decreased by 18%;
- None of the railway crossings collisions or collisions 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 contract concluded in accordance with Section 9 of Regulation No. 376/2006 Coll. on the safety system of railway operations and transportation and procedures in extraordinary events on railways, as amended, EEs are investigated for the Company by Department 18 of the General Directorate of ČD, a. s.

During 2010, three serious accidents occurred (two collisions of trains and one derailling). The Company is responsible for only one accident, the derailling on 9 March 2010 between Prackovice nad Labem and Lovosice stations. The direct cause of the derailling was a hidden technical defect of the railway vehicle that was not identified in advance by the Company's specialists during activities for which they are responsible. The EE resulted in considerable damage, amounting to CZK 32,272,440.

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. Therefore, such real estate can be considered strategically significant. A total of 225 buildings and 217 plots of land owned by the Company are registered at the Czech Cadastral Office. Regular maintenance of real estate is carried out by the Rail Vehicle Repair Centre itself in line with the financial plan; the investment activities are carried out in line with the Company's general directorate.

Lease of Rail Vehicles

One of the Company's significant business activities also includes the lease of rail vehicles, i.e. freight wagons and locomotives. The Company offers both long-term and newly also short-term continuous leases of wagons to hedge spot transactions. For these purposes, the Company has sufficient vehicle capacity available and offers leasing all wagon series, including cisterns. Information on the rolling stock can be found in the online catalogue of wagons at <http://vozy.cdcargo.cz>.

Over 3,000 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 surplus and redundant traction vehicles solely for use abroad.

Cross-Functional Activities

Marketing and Communication Activities

The Company's marketing and communication activities 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 2010, the Company launched the second part of its main marketing and communication campaign "Whatever – Wherever", which focused on promoting the Company and its services to the professional and general public. The entire campaign was prepared in a new visual style that matched the Company's rebranding concept. This follow-up campaign was predominantly focused on individual products

and environmental protection. The goal of the marketing campaign was to promote the Company and strengthen its leading position on the railway freight transport market in the Czech Republic and Europe. Media used during the campaign included TV, radio, 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, which were predominantly intended for the needs of the trade fair team at international trade fairs and for presenting the Company at logistics symposiums. In addition, TV and radio spots were created that were used in the marketing campaign in the second half of 2010.

Web Presentation

A significant means of communication about ČD Cargo, a.s. included the website for business partners and customers: www.cdcargo.cz. The web pages were created in a new style based on the Company's design manual. Owing to growing customer interest in information, the web pages required a complete redesign, regular updates and an English version. During the year, the web pages were developed and new links and information was added, such as online 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 services (downloads of Cargo Motion, Bulletin Cargo and Cargo Speciál magazines). The press centre published press releases on an ongoing basis and during the year, and a photo gallery for journalists was completed. Similarly, the intranet for the Company's employees, which is a significant information and communication medium between employees and management, was developed and expanded.

Print and Media Communication with Customers

ČD Cargo, a.s. continued to publish the 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 general information on railway freight transport, includes information on legislation and other legal requirements in this area. As a supplement to the Grand Expres monthly, ČD Cargo, a.s. publish-

es Speciál Cargo magazine, which is intended for the general public with the aim to present life in railway freight transport in an entertaining way. In September 2010, the Company renewed publishing 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 2010, ČD Cargo participated in the significant international TRANSRUSSIA trade fair in Moscow. The Company slightly redesigned 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 were produced about the Company, which bring the world of freight transport closer to the customer. At the trade fair, the Company received an award for the best exhibit. Other significant conferences in which the Company participated included the 2010 IRFC (International Rail Freight Conference) in Prague, EASTLOG and the 2010 international logistics conference SpeedChain. 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 2010, the Company continued cooperating with certain Czech universities, predominantly technical and economic universities (University of Economics in Prague, the Jan Perner Transportation Faculty in Pardubice, Transportation Faculty at the Czech Technical University etc). The core of this cooperation includes consultations with and supervision for 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 they 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 current commodity transports 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, both with regard to seeking and finding new solutions and as a means of recruiting future employees.

Another example of the Company's cooperation with science and research is the partnership with the Transport Research Centre in Brno. The Company both acts as a partner in certain projects and tasks dealt with by the Transport Research Centre and assigns certain issues to be dealt with by this significant transport scientific institution.

Informatics

All steps realised in IT in the prior period resulted in the fulfilment of the basic goal, i.e. "to optimise using information technologies to ensure efficient work and the overall management of the Company's expenses and profit".

Operational and Business Applications

The development of the existing operational and business applications was limited in 2010 owing to the start of preparations for implementing a new operational and business information system. The principal objective of the new system will be to match the sales and expenses to the business case as accurately as possible and thus to obtain the most accurate information on current and realised transportation. As an integrated functional entity, the system will allow for the more simple and operational planning of necessary capacities and provide an overview of the actual use of the operated 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 wagon sufficiently in advance. The development of a new system will begin in 2011 so that the required state is reached by 2013.

Despite the limited development in 2010, and in line with the concept of a new operations and business information system, the Company completed the implementation of the VLASTA (stations for the formation of trains) information system, which is intended to support work in the formation station. The implementation of the VLASTA system replaced the MIS (local information) system, which was used by ČD Cargo, a.s. since 1989 and operated on the obsolete DOS platform.

In order to unify the method of acquiring data on the track and shorten the acquisition time, the Company started to use mobile devices – PDAs – at the end of 2010 as the useful life of its existing PSION mo-

bile devices was exceeded. The technology of mobile devices will allow removing the current problem of significant inaccuracy and record delays. In 2011, the Company will distribute these devices to the entire network of formation yards.

In 2010, the Company completed implementing the system supporting complaint and damage claim resolution processes in domestic and international transportation. This is a web application that provides a single interface and centralised complaint claim records, both directly from customers and foreign railway companies as part of the complaint claim sharing system. The application itself is divided into modules by individual independent sections. Users thus work only with data that they actually need.

SAP Economic System

All activities in SAP were realised with the basic objective of implementing new functionalities in the standardised version using a minimum of program adjustments. In order to decrease operating expenses for SAP system maintenance, a project to standardise the SAP system was launched in 2010. In addition to overall reviews of the system, proposing and implementing a gradual transfer to standardised solutions and thus replacing long-term customer adjustments in the system is intended.

In the first half of 2010, the Company completed and handed over the project of an electronic system to issue and distribute customer invoices, which will enable generating and sending invoices in electronic form automatically from the SAP SD module. As required by customers, invoices are aggregated and marked with an electronic sign. When issued, invoices are automatically saved in an electronic archive, which is accessible for customers after complying with safety rules.

In 2010, the Company also started preparing the SAP system for International Financial Reporting System (IFRS). The system can generate supporting documents as part of the consolidated financial statements. Another step for this area is full-fledged accounting in accordance with IFRS for which the Company is preparing.

Security Policy for Data Protection

The principal pillar of the newly conceived data protection and security policy in the Company is the Identity Manager system, which is the principal and, in the future, the sole system for centralised iden-

tity management. The purpose is to simplify and safely use, create, administer and maintain user identity. In 2010, the Company gradually transferred the administration of user accounts of individual applications. The process of implementing Identity Manager across the portfolio of the Company's applications and implementing individual security policy steps is time consuming and costly and thus will continue in coming years.

Continued Regular Renewal of End Use Devices

In mid-2010, the Company started renewing end use devices, i.e. desktops, laptops and LCD panels including their necessary peripherals, on a regular basis. End use devices are replaced at regular intervals of 3 to 5 years (3 years - laptops, 5 years – desktops and LCDs) so that the performance and capacity is sufficient for modern applications and systems. Servicing is guaranteed by a contract and minor repairs and maintenance may be done by trained and certified IT specialists employed by the Company.

International Activities

In 2010, the Company continued developing international IT activities, which relates to the use of several international applications for exchanging data with partners. The Company operates routine data exchanges concerning trains and vehicles using the UIC 30 application (freight train announcement), which is the basic tool for securing confidence in the technical and transportation aspects of trains. For exchanging freight and wagon documents, the Company uses the bilateral 40 application with all neighbouring national transporters except for PKP Cargo. The Company, as a member of the international RAILDATA organisation, also uses the ISR European central system to monitor its own wagons and shipments abroad. The information from ISR is made available to customers through the ČD Cargo, a.s. Portal. The quality of data in all these applications is gradually increasing, also due to the newly operated search and analytical tool.

In addition, the Company is preparing new applications with respect to market and European legislation requirements. These predominantly include technical specification interoperability for telematic applications in freight transport (TSI TAF). As part of preparing to implement TSI TAF, the Company is an active member of a group of large transportation companies (cluster of railway companies). In 2010, the Company actively participated in reviewing specifications

for the train preparation process. The Company also actively cooperated with SŽDC, s.o. and ČD, a.s. in coordinating the gradual TSI TAF implementation.

Another major activity that we monitored was the concept of an electronic freight sheet (e-RailFreight project). The replacement of freight and vehicle sheets with equivalent sheets is an evolutionary change in transportation technology. The Company is gradually expanding the paper-free operation of domestic transportation, with the printing of freight sheets at destination stations at this time. The Company introduced a pilot project – paper-free operation of domestic transportation and, using 40 application, paper-free technology for returning empty cars with Rail Cargo Austria and ŽSSK Cargo.

Investments

In 2010, the Company realised investments in the amount of more than CZK 1.7 billion (including the component accounting for inspection repairs of wagons). The Company's investment activities are predominantly focused on rail vehicles; these investments amounted to 87% of the acquired fixed assets in 2010 (including the component accounting).

Investments in Freight Vehicles

In 2010, the Company acquired a total of 50 Zacns cistern wagons under leases. In addition, the Company modernised 322 freight wagons in 2010. Twenty-eight modernised Rils wagons were supplied in the reporting period. The supplies of these modernised wagons include the completion of the order that was started in the prior year. New orders for modernising the Falls, Faccs and Zaes series wagons were implemented. During 2010, 250 Falls series wagons, 4 Faccs series wagons, and 50 Zaes series wagons were modernised. As part of the investment activities that are focused on freight vehicles, the wheel monoblocks on railway freight vehicles of various lines were changed.

Investments in Traction Vehicles

In the area of traction vehicles with electric drives, 2 alternating-current locomotives of the 230 series were modernised (these deliveries complete the orders that were started in the prior year). In addition, 7 locomotives of the 230 series with approval for operations in Slovakia and Hungary were modernised. In 2010, work on the first 2 locomotives of the 163 series continued; these will be modernised to two-system locomotives of the 363 series. These two modernised

locomotives should have been supplied in 2010, but the date of delivery was delayed until 2011. Another 28 modernised locomotives of the 363 series will be delivered from 2011 to 2013. In 2010, one diesel traction was modernised to the 742.2 series. Part of the investment activities in locomotives includes technical improvements to locomotives of different types and with different drives (modification of 3 traction vehicles of the 130 series for operations in Poland, 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 modernising machinery premises and technological equipment for the needs of organisational structure units and on renovating administrative and repair centres within these units. During 2010, 19 investments in machinery and 45 investments in construction were realised. A significant part of the investments was started in 2009 and they were completed in 2010.

Other Investments

Other significant investments include investments in information systems and technologies, the acquisition of handling equipment and freight vehicles, investment in work safety and health protection, and investment in logistics terminals.

In individual Rail Vehicle Repair Centres, the Company realised investments in trucks that are used to deliver spare parts and for realising rail vehicle repairs outside the Company's premises. In 2010, obsolete handling equipment was replaced in selected operational units. This change predominantly concerned forklifts. With respect to the strategic intentions of the Company in the logistics centres, investments were primarily directed to the Lovosice terminal. Preparation and construction of logistics centres in Lovosice (second stage) and in Brno is anticipated for the coming years.

Component Accounting for Significant Repairs of Railway Vehicles

Pursuant to the method of component accounting for significant repairs of railway vehicles that has been applied since 1 January 2010,

this fact is reflected in standalone items in the list of investments. With respect to the acquisition of fixed assets, these specifically include completed inspection repairs of railway vehicles in 2010.

Staff Policy and Social Programme

The Company has continued to adopt measures to improve its financial situation and increase work productivity. As part of the measures that 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.

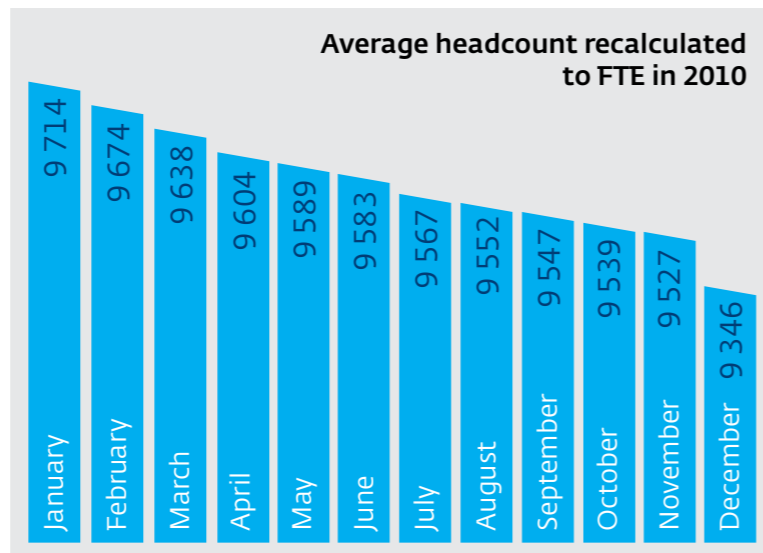
Contractual cooperation with selected high schools continued, which was focused on preparing graduates for future careers at ČD Cargo in order to decrease the average age of our employees.

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 at contractual schools again had the opportunity to receive a contribution for studies, which is conditioned on a contractual obligation to join ČD Cargo, a.s. after their studies are completed. For the 2010/2011 school year, a total of 8 students were selected who will be able to start working at the Company as soon as they graduate in 2011 together with other students from prior years.

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

From January to December 2010, the average registered headcount recalculated to full-time employees decreased by 368 employees, i.e. from 9,714 (January 2010) to 9,346 employees (December 2010). The physical headcount as of 1 January 2011 was 9,225.

The decrease in the average headcount recalculated to FTE for November 2010 and December 2010 was a result of the need to decrease the number of employees in order to increase work effectiveness and the activities focusing on increasing competitiveness.



In order to reduce the unwanted social impacts of the decrease in employment that resulted from the transformation of České dráhy, the accompanying social programme that was adopted by the Czech government was also applied in 2010. This programme is concerned with the following areas above the scope of the legal regulations:

- Provision of severance upon termination of employment related to the transformation in line with government regulation 370/2007 Coll.
- Leases of flats and residential buildings;
- Employee fare and transportation costs;
- Other social benefits; and
- Requalification of employees.

In 2010, the average salary in ČD Cargo, a.s., ie the payroll costs excluding other staff costs, amounted to CZK 27,871. In line with applicable legislation, the social fund of ČD was predominantly used for the employees of ČD in 2010 to:

- Improve the working environment;
- Make contributions for cultural and sports activities, and holidays;
- Make contributions for meals; and
- Provide 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's collective agreement that regulates individual and collective relationships between the employer and the employees, as well as mutual relationships between trade unions and the employer, was concluded with effect from 1 January 2010 until the end of 2010.

Code of Ethics

In 2010, the employees acted in line with ČD Cargo, a.s.'s Code of Ethics, which helps ensure that the daily activities of the Company and the conduct of all its employees are in line with the Company's principles, i.e. with a set of particular rules that 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 lays out the Company's ethical values, vision and mission, and complements and develops the Company's work regulations.

Quality Management – ISO

The ISO management system group that has been part of Human Resources since 15 December provides for all activities that relate to management systems and ISO 9001 quality control and ISO 14001 environmental management introduced in the Company. Concurrently, it secures, analyses and monitors preparation for certification as part of other ISO management systems.

One of the basic tasks is to renew the quality and environment certificates each year that were granted to the Company in prior years. Both certificates are used predominantly during selection proceedings in which our Company participates. Another benefit of the ISO 14001 certification is that it ensures greater credibility for state control bodies and a more responsible systematic approach in activities relating to environmental protection.

This relates to the prevention and decrease of the risk of environmental disasters and damage, including potential actions and sanctions by the Czech Environmental Inspection Agency and other control bodies.

The Company proved its ability to be recertified and to successfully go through the demanding certification/recertification proceedings during the annual compliance quality audit (April 2010) and environmental

compliance audit (November 2010). In both cases, the audits involved renewing the validity of these certificates for the period of another three years, as well as an obligatory inspection of compliance with the conditions defined by the above ISO standards by both external and internal legislation. As in prior years, these external audits were performed by the certification company Moody International, s.r.o. During this audit, Moody International, s.r.o. did not identify any non-compliance issues, but only several minor 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.

Since 2009, all certification fields have been integrated and they 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 parts; and
- Lease and sublease of rail vehicles.

Certified organisational structure units in the QMS system include almost all sections of the General Directorate and Rail Vehicle Repair Centres (including operational workplaces). The EMS system currently includes only Division 12 and all Rail Vehicle Repair Centres.

Another priority task that has been solved throughout the year was the mapping and description of (sub)processes (which are required not only by ISO 9001 and 14001). This is the "Process modelling and electronic ISO documentation" project – the second straight project concerned with process diagram modelling, which continues the pilot project from 2008 concerning the mapping of processes in financial management. Currently, the comprehensive process model can be used in describing and documenting activities included in management systems and in internal and external ISO audits (when the standardised status is compared to the actual status). In the EMS management system, a document library was created in the ČDC intranet environment, where all process diagrams, system documentation, documentation from internal and external audits, and other documents (resolutions made by state authorities, self-government, etc.) are located.

From the short-term and medium-term perspectives, we aim to expand the EMS certification under ISO 14001 to other units of the organisational structure in cases where the activities performed or

managed by them have an impact on the environment (predominantly operational units or operations workplaces). The Company also aims to implement 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 is also considering having an external audit performed according to the assessment of SQAS Rail (the SQAS system is a multinational system for assessing safety, quality and impacts on the environment for logistics services provided by transporters; it relates to the transport of dangerous cargo according to RID). The requirements for a specific certification are based on the needs and requirements of the market, i.e. our customers, tender organisers, and other business partners.

AEO Certificate



In 2010, the Company was recertified as the holder of the AEO customs quality certificate, which was obtained pursuant to the resolution of the Customs Directorate in České Budějovice, the local relevant administration body according to Act No. 185/2004 Coll., on Czech Customs Administration. The AEO (Authorised Economic Operator) certificate – “Simplified customs procedures/Safety and security – was granted to the Company on 24 September 2009.

Together with Finnish VZ Cargo and DB Schenker Rail Nederland, the Company is the third former state and national European railway company to obtain an AEO certificate.

Following discussion and approval by European bodies, AEO was introduced on 1 January 2008. The certificate is respected by all EU Member States, and it will soon become valid for USA and Asia, as well. AEO is a response to the need to increase the security of international trade and the use of the security amendment in the customs legislation; it monitors risks before the entry and exit of goods to or from the European Union, and involves targeted inspections of imported and exported goods. The simplifications of procedures and inspections are allowed only to inspected – certified – entities, i.e. holders of an AEO certificate.

The AEO certificate is used by importers to the EU, exporters from the EU, producers, transporters, shipping companies, operators of customs warehouses, and customs brokers. Its objective is to increase security of

the entire supplier chain. This certificate offers a competitive advantage, increases prestige in relationships with partners and customs administrations, decreases the number of physical inspections of goods, priority physical inspections and clearance at the customs authority, requires less data to be declared before import/export, facilitates access to the authorisation of simplified customs procedures (will be soon required), expedites the import/export of goods, lowers the risk of a customs regulations breach, is acknowledged in the EU and later in other regions, etc.

Obtaining this certificate and recertification increases the Company's reputation and can be used in the Company's business activities in later periods.

The Company and the Community

International Activities and Relationships

International relationships are coordinated by the Company's Group of International Relationships, which was transformed on 26 November 2010 into the Department of International Activities. The activities of its members in 2010 focused on four principal fields: administration of activities related to the Company's membership in international organisations, coordination of international projects and general representations of the Company, and a new target after transformation – strengthening of the international business policy.

The Company's involvement in the activities of international organisations in 2010 was based on conditions set out in the contract for international cooperation that was concluded between the Company and ČD, a.s. With our parent company, we promote the principle of a uniform concept, i.e. uniform membership of the ČD group, coordination and information sharing.

České dráhy, a.s. 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).

Significant changes were made predominantly in relation to the Brussels Clearing Centre (BCC). The Company applied for an individual membership in BCC with a total of five equity investments. The price of one in-

vestment is EUR 750. BCC accepted the accession on 19 August 2010. The Company's membership is valid as of 15 September 2010 and will be ratified by BCC's General Meeting in June 2011. The Company will use code 2154 for clearing transactions; such code has been used since December 2006 throughout ČD, a.s., which is a member of the BCC.

In international projects, the SoNorA project—development of a multimodal interconnection of the Baltic and Mediterranean Seas—was completed in cooperation with the Division of Intermodal Transportation and Logistics. The project was organised as part of the Operational Programme of Multinational Cooperation and funded from the European fund for regional development. Principal deliverables of the project included an analysis of the development of the intermodal terminal in Lovosice, including the purchase of hardware and software for optimising movements of freight handlers in the terminal (these are currently already tested in real conditions), and a pre-investment study of market opportunities in the Brno terminal.

In 2010, the department was engaged in the Company's activities in the significant Xrail project, the aim of which is to support the transport of individual shipments on the territory of Alliance Xrail member states. The foundation agreement among seven European founding transporters was signed in Zurich on 18 February 2010 and its members also include neighbouring countries Germany and Austria, which is an advantage for the Company. The project anticipates that when transporters guarantee an on-time delivery in 90% of Xrail shipments, the reliability of the railway transportation will achieve the level of road transporters, which will significantly increase its competitiveness. At first, the project will be carried out 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.

Ecology and Environmental Protection

The ČD, a.s. group, which includes the Company, is responsible for environmental protection and it actively protects the environment. ČD Cargo and ČD cooperate on the basis of a mandate contract that was concluded on 27 May 2008. With regard to the contractual relationship, the Company has created its own hierarchy, which focuses on the Rail Vehicle Repair Centres line, which is directly linked to ecology. Such processes include reducing waste, insulating buildings, protecting the railway bedding against pollution from oil drops from shed traction vehicles, preventing and decreasing the risk of environmental

disasters and damage, etc. In the Company's Operational Unit, this is secured by ecology contact persons who cooperate with ecologists from Rail Vehicle Repair Centres and together they are managed by the chief ecologist from Division 12 of the Company's General Directorate. The Company holds meetings with SŽDC, s.o. and its standalone ecology department.

The first half of 2010 was a breakthrough period for ecology in the Company as senior management decided to expand the EMS system (which was tested in 2008 in SOKVUNL) to include Maintenance and Repairs of Railway Vehicles (Division 12 of the General Directorate) and SOKV/OKV subordinated parts. The aim of expansion was to improve the quality of services provided by the Company to customers, improve credibility in relation to bodies of the state administration and ensure a responsible approach in activities related to environmental protection.

Through the adoption of the Environmental Policy, all employees are bound to comply with environmental management, whose purpose in the system is describe, assess, and improve the management system in Division 12 and in the Rail Vehicle Repair Centres in respect of environmental protection, predominantly through efforts to minimise waste (refer to chart of waste production) and the negative impacts of activities and technologies (eg in compliance with the principles of pollution prevention, readiness for accidents, purchase of environmentally friendly products, modernisation of chemical laboratories, compliance with sustainability principles.)

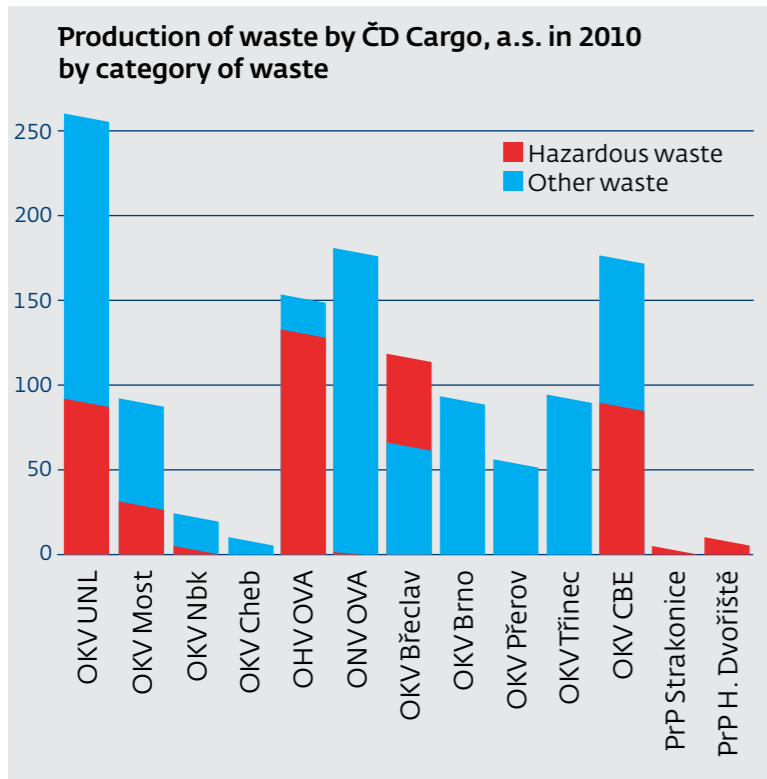
As the EMS system focuses on providing the best conditions for environmental protection, its expansion was a challenge for improving certain environmental activities. For example, the introduction of recycling (paper, plastic, glass), continued preparatory work for renovating the sewer system and waste water treatment plant in Břeclav, completing the renovation of the sewer system in OKV Most, introducing regular cleaning at Rail Vehicle Repair Centres, unifying the laboratory procedures used in chemical laboratories etc.

During the reporting period, the Company organised regular internal audits focusing on compliance with determined criteria and obligations set by the effective legislation for environmental protection. The aim was to assess the EMS system and the readiness of specific workplaces for the EMS external audit. The results were discussed at management meetings and assessed by senior management at the end of 2010.

All documentation for the EMS implementation is available to all employees at the ČDC Share Point. The public has access to the information on the Company's website.

Between 22 November 2010 and 30 November 2010, a compliance audit was performed at Division 12 of the General Directorate and all Rail Vehicle Repair Centres (performed by MOODY International) and the Company was granted certification according to ČSN EN ISO 14001:2005. The external audit identified no discrepancies, only several partial recommendations, which will be implemented as part of preparing the Investment Plans for 2011.

The fact that the EMS implementation at Division 12 of the General Directorate and Rail Vehicle Repair Centres (CBE/OVA) is a good decision is confirmed by the fact that the Company did not face any financial sanctions despite extraordinary events (railway accidents) that impacted the environment and the inspections by state authorities, specifically the Czech Environmental Inspection Agency.



Fire Protection

In 2010, fire protection involved standard cooperation with the fire brigade of SŽDC, s.o.

Significant changes included a new fire protection organisation, which was transferred to Maintenance and Repairs of Railway Vehicles (Division 12) following amendments to the Company's Organisational Rules.

Fire protection training was prepared to be transferred to an electronic system in 2010. Starting in 2011, this has been used in pilot e-learning at the headquarters and will be extended to other units of the organisational structure in 2011.

In 2011, 26 fires were recorded with total damage amounting to CZK 3.35 million. The value of saved assets is CZK 7.38 million. These all include railway vehicle fires arising from operational risks. In two cases, fires were set by vandals.

Corporate Social Responsibility

As 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 be as environmentally friendly as possible with regard to its business activities. Among other things, the Company holds the EMS certificate. In addition, the Company participates in a wide range of educational and charitable projects. The most significant educational projects include the "Prevention Trains" (together with ČD), long-term support of the Czech Paralympic Team, the "Young Forwarder" project, support of the Olpa Cup, a table tennis tournament, support of "Turnaj Strýčka Jedličky" (a celebrity doubles tennis tournament, the proceeds of which will be donated to support the Jedlička Institute), and support of the AVAZ Děčín bowling tournament for handicapped athletes.

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 55,350,000
Equity interest: 66.94% (CZK 37.05 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» (orientační překlad: 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.

Xrail S.A.

Date of entry in the Register of Companies: Belgium 24 June 2010
Share capital: EUR 61,500
Equity interest: 13% (EUR 7,995)
Principal business activities: support of the management of international transport of wagon shipments among the operators of the railway transport.



9 | FINANCIAL POSITION

Investment Activities of ČD Cargo, a. s.

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

	(CZK '000 000)		
	2010	2009	2008
Acquisition of freight cars	0	0	0
Renovation and modernisation of freight cars	584	1 262	1 518
Acquisition of traction vehicles	0	1	0
Renovation and modernisation of traction vehicles	390	502	685
Machinery investments	11	19	37
Construction investments	104	92	111
Other investments	109	165	177
Component accounting of inspection repairs of railway vehicles	507	-	-
Total investments	1 705	2 041	2 528
Prepayments for investments provided (as of 31 December)	239	77	7

The prepayments for realising future investments consist exclusively of prepayments for modernising the 16 series locomotives to the 363 series and modernising the 230 series locomotives.

Balance Sheet

In the period from 31 December 2009 to 31 December 2010, the value of the Company's fixed assets increased by CZK 0.62 billion, reaching a total of CZK 13.05 billion, which equals 83.34% of its total assets. From 31 December 2009 to 31 December 2010, the Compa-

ny's current assets, which include inventory, receivables and current assets, decreased by CZK 0.67 billion to CZK 2.27 billion, which represents 14.51% of its total assets. The value of the Company's equity in the reporting period decreased by CZK 0.26 billion to CZK 7.79 billion, which represents 50.90% of its total liabilities. External funding decreased by CZK 0.21 billion to CZK 7.62 billion in the reporting period, which represents 48.67% of its total liabilities.

Profit and Loss Account

The Company's loss before tax for 2010 amounted to CZK (418) million with aggregate sales and income of CZK 14,984 million, aggregate costs of CZK 15,402 million, and accounting amortisation and depreciation charges of CZK 1,111 million. Relative to the business plan, the Company's sales and income totalled 100.6% and the aggregate costs reached 104.5% of the forecasted values.

Funding of ČD Cargo, a. s.

The Company's investment and operational activities 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 2010. One of the outcomes of the economic recession was a decrease in demand for goods transports; it was therefore necessary to compete with road transporters and other railway transporters for the lower volume of

goods. ČD Cargo's price policy thus had to be adjusted to the 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 and the repairs and modernisation thereof, including activities to secure financing via external sources, are typically viewed as 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 higher level locomotives are conducted similarly. Diligent use of the provisions of the Public Procurement Act enables costs related to railway car acquisition, renovation, repair or modernisation to be optimised and external funding for the costs thereof to be obtained.

For railway car modernisation and repairs, 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 Company's liquidity risk is managed so as to ensure that the volume of funding necessary to settle 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, a lease-back of some of the freight cars was realised in 2009 and a lease-back of 230 series traction vehicles was realised in 2010. This funding structure creates a desired framework for ČD Cargo's financial stability, with possible flexible use of individual forms.

Credit Risk

The Company has in place 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 that is used to determine the floating component of the wages of employees involved in managing the outstanding receivables.

To provide additional collateral to support risky receivables, standard tools in various combinations are used. To improve the liquidity level and for the sake of decreasing the amount of receivables and payables, the Company actively pursues a 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 currency risk. To mitigate negative impacts on the Company's financial performance, a wide range of 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, 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 a converse development, ie the weakening of the crown, occur.

Commodity Risk – Price of Railway diesel

Railway diesel used by the Company represents a significant cost component. As the price volatility of this commodity throughout 2008 was highly volatile; a decision was made to hedge the price on a three-year basis at a monthly volume of 1.5 million litres at the end of 2008, when the commodity's prices reached the bottom levels attained in 2005 and 2006 and thus to eliminate the risk that the price would rise above the agreed level at approximately three quarters of the average monthly consumed volume.

Other Operational Risks

The Company hedges a range of operational risks via 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.

10 | ANTICIPATED DEVELOPMENT, OBJECTIVES AND INTENDED ACTIVITIES

In 2010, the Czech Ministry of Transport began equalising conditions between road and railway transport. Toll fees were increased and fees for using railway infrastructure were decreased. This trend will continue in 2011 and in subsequent years. Logically, we can expect greater interest in railway freight transport. This increase will surely be due to other transporters operating on the SŽDC infrastructure; however, it is the Company's task to maintain its position as the principal player on the railway freight transport in the Czech Republic.

ČD Cargo, a.s. will focus on the following activities:

- Increasing the internal effectiveness related to increasing the competitiveness of ČD Cargo, a.s. on the transport market;
- Investing in the rolling stock, predominantly in locomotives;
- Improving communication with minor customers in the region, even with potential customers who do not currently use railway transport;
- Developing services with higher added value (storage etc.);
- Developing cooperation with road transporters;
- Involving the start of unaccompanied intracontinental combined transportation; and
- Territorial expansion.

To improve communication with existing minor customers and companies that do not currently use railway transportation services, primarily it is necessary to map their potential, needs and opportunities. In this respect, a regional business group was formed that should be closer to these minor companies than the existing business structures and should closely cooperate with their operating units. This step is accompanied by the maintenance and further development of the segment of individual freight shipments with more intensive cooperation with other transporters in the Xrail alliance, which was formed for this purpose and for the development of new products focused on companies in the Czech Republic. These new products will include both railway transportation and services with higher added value, such as road "door-to-door" distribution, short-term and long-term storage, and reloading between individual types of transport.

We are aware that a large part of the volumes of goods cannot be transported (either at all or under limited conditions only) by rail for various reasons. The railway transport of shipments and goods that would be otherwise transported by road is enabled by unaccompanied intracontinental combined transport of exchangeable superstructures and trailers. However, its development requires a more extensive network of logistic centres and close cooperation with operators of combined transport and road transporters. One of the steps enabling the development of the unaccompanied combined transport is the operation of the Lovosice terminal, which has modern siding line storage where combined transportation trains are dispatched to Germany and newly intracompany trains to Ostrava.

The strategic cooperation with road transporters should ensure the business control over transports that are not by rail.

Limited growth opportunities on the Czech market should be compensated for by territorial expansion, which should serve growth in Central and Eastern Europe and also gaining a larger share in Asia/Russia – Europe transit transports.



11 | 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. As of 31 December 2010, the share capital amounted to CZK 8.494 million.

Ownership Structure

Sole shareholder:

České dráhy, a. s.
Nábřeží L. Svobody 1222, Prague, 110 15
Corporate ID: 709 94 226



12 | REPORT OF THE ADMINISTRATION BOARD, SUPERVISORY BOARD AND AUDIT COMMITTEE

Report of the Supervisory Board

During 2010, the Supervisory Board of ČD Cargo, a.s. held nine meetings, one of which was an extraordinary meeting.

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, its rules of procedure and applicable regulations. The Company's Supervisory Board systematically monitored the due execution of the function of the Board of Directors while carrying out its business activities. It monitored an extraordinary audit in the Company, dealt with key problematic areas in relation to the findings of the extraordinary audit, and adopted measures of the Company's Board of Directors and management. The Board of Directors provided the Supervisory Board with necessary information and supporting documentation for its monitoring activities. The Chairman of the Board of Directors together with other members of the Board of Directors participated in all meetings and informed the Supervisory Board continuously of the Company's business activities and results of operations and it also adopted stabilisation measures.

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 January 2009 to 31 December 2009 with the Auditor's Opinion and Report by the Audit Committee to the financial statements with the Auditor's Opinion, Proposal for the Distribution of ČD Cargo, a.s.'s Profit for the period from 1 January 2009 to 31 December 2009, the Report on the Business Activities of ČD Cargo, a.s. and the Balance of its Assets for the period from 1 January 2009 to 31 December 2009, and the Related Parties Report for the period from 1 January 2009 to 31 December 2009.

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 from the Company's Administration Board.

At its twenty-sixth meeting, the Supervisory Board discussed the Report of the Board of Directors on ČD Cargo, a.s.'s Business Activities and the Balance of its Assets for the year ended 31 December 2010 and the Report on Related Parties Transactions for the year ended 31 December 2010 with the Auditor's Report, and reviewed the following documents: the Financial Statements of ČD Cargo, a.s. for the year ended 31 December 2010 including the Independent Auditor's Report and the Proposal to Settle the Economic Results of ČD Cargo, a.s. for the year ended 31 December 2010. 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.

Petr Žaluda

In Prague on 6 April 2011

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 the year ended 31 December 2010. In accordance with ČD Cargo, a.s.'s Articles of Association, the Administration Board is a company body that 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., at the suggestion of the Ministry of Transportation of the Czech Republic.

In the reporting period, the Administrative Board of ČD Cargo, a.s. held six 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 approval.

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 30 March 2011

Martin Sýkora
Chairman of the Administration Board

Report of the Company's 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 periods from 1 January 2009 to 31 December 2009, 1 January 2010 to 30 June 2010, 1 January 2010 to 30 September 2010 and 1 January 2010 to 31 December 2010.

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 and the Report on Related Party Transactions for the periods from 1 January 2009 to 31 December 2009 and 1 January 2010 to 31 December 2010 and of preparing the Annual Report for the year ended 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 in accordance with legislation. During the preparation of the financial statements and the mandatory audit thereof, the preparation of the Report on Related Party Transactions and related activities, the Audit Committee, acting in its capacity, 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 facts stated above 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 along with the Auditor's Report and the Report on Related Party Transactions along with the Auditor's Report for the periods from 1 January 2009 to 31 December 2009 and from 1 January 2010 to 31 January 2010 and that the sole shareholder acting in the capacity as the General Meeting approve the documents. It discussed the Auditor's Report on the Company's Annual Report for the year ended 31 December 2009.

In addition, the Audit Committee monitored the integrity of the financial information provided by the Company and the internal control systems and risk management in the Company. It discussed the report of internal control and internal audit in the Company. In 2011, the compliance and internal audit division will fulfil its tasks directly according to the requirements of the Audit Committee (15% of the costs for this division are reserved for this purpose). The compliance and internal audit division monitored the implementation process of an extraordinary audit by KPMG Česká republika, s.r.o. based on the resolution of the sole shareholder, České dráhy, a.s., acting in the capacity of the General Meeting of the Company, dated 10 May 2010.

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

In Prague on 15 March 2011

Oldřich Vojtíš, Ph.D.
Chairman of the Audit Committee



13 | INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

To the Shareholder of ČD Cargo, a.s.

Having its registered office at: Praha 7, Holešovice,
Jankovcova 1569/2c, 170 00
Identification number: 28196678

Based upon our audit, we issued the following audit report dated 21 March 2011 on the financial statements which are included in this annual report in chapter 14:

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

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order

to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matters

We draw attention to Note 3.20 to the financial statements. The Company changed its accounting policy of depreciating fixed assets and implemented the component depreciation approach as of 1 January 2010. The impact of the change of the policy on the Company's profit for the year ended 31 December 2010 represents an increase in the pre-tax profit of CZK 351 million and an increase in fixed assets as of 31 December 2010 in the same amount. This change in the policy additionally resulted in the increase in the deferred tax liability in the Company's balance sheet of CZK 67 million and an increase in the deferred tax charge in the profit and loss account in the same amount. The net impact of the change in the policy on the Company's post-tax profit was positive in the amount of CZK 284 million. Our opinion is not qualified in respect of this matter.

We additionally draw attention to Notes 1.2. and 4.22. 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. 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 127 million in compensation for increased costs incurred as a result of traffic closures in 2008, 2009 and 2010 which has not yet been fully confirmed by the counterparty. Our opinion is not qualified in respect of this matter."

Report on the Related Party Transactions Report

Based upon our review, we issued the following review report dated 21 March 2011 on the related party transactions report which is included in this annual report in chapter 16:
“We have 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 2010. This related party transactions report is the responsibility of the Company’s Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

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

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

Report on the Annual Report

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

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

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

In Prague on 1 June 2011
Audit firm:
Deloitte Audit s.r.o.



certificate no. 79

Statutory auditor:
Václav Loubek



certificate no. 2037

14 | FINANCIAL STATEMENTS OF ČD CARGO, A. S.

Balance sheet as of 31. 12. 2010 (in CZK thousand)

ČD Cargo, a.s., IČO 28196678, Jankovcova 1569, 170 00 Praha 7

			31. 12. 2010	31. 12. 2009
	Gross	Adjustment	Net	Net
TOTAL ASSETS	30 109 935	14 457 457	15 652 478	15 671 635
A. Receivables for subscribed capital				
B. Fixed assets	27 430 101	14 384 935	13 045 166	12 423 832
B.I. Intangible fixed assets	485 141	237 890	247 251	234 586
B.I.1. Start-up costs	28 492	15 671	12 821	18 520
B.I.2. Research and development				
B.I.3. Software	300 445	176 117	124 328	121 345
B.I.4. Valuable rights	114 304	46 102	68 202	7 245
B.I.5. Goodwill				
B.I.6. Other intangible fixed assets				
B.I.7. Intangible fixed assets under construction	41 900		41 900	87 476
B.I.8. Prepayments for intangible fixed assets				
B.II. Tangible fixed assets	26 809 752	14 147 045	12 662 707	12 122 918
B.II.1. Land	81 240		81 240	113 034
B.II.2. Structures	1 158 196	558 690	599 506	527 685
B.II.3. Individual movable assets and sets of movable assets	19 624 248	12 434 898	7 189 350	6 477 642
B.II.4. Perennial crops				
B.II.5. Breeding and draught animals				
B.II.6. Other tangible fixed assets	48		48	48
B.II.7. Tangible fixed assets under construction	95 182		95 182	101 379
B.II.8. Prepayments for tangible fixed assets	239 427		239 427	71 082
B.II.9. Valuation difference on acquired assets	5 611 411	1 153 457	4 457 954	4 832 048
B.III. Non-current financial assets	135 208		135 208	66 328
B.III.1. Equity investments in subsidiaries	85 264		85 264	41 984
B.III.2. Equity investments in associates	31 543		31 543	24 344
B.III.3. Other securities and investments				
B.III.4. Loans and borrowings - controlling entity, substantial influence	18 064		18 064	
B.III.5. Other non-current financial assets	337		337	
B.III.6. Acquisition of non-current financial assets				
B.III.7. Prepayments for non-current financial assets				
C. Current assets	2 344 328	72 522	2 271 806	2 937 789
C.I. Inventories	118 981		118 981	141 680
C.I.1. Material	118 981		118 981	141 680
C.I.2. Work in progress and semifinished goods				
C.I.3. Products				
C.I.4. Animals				
C.I.5. Goods				
C.I.6. Prepayments for inventory				
C.II. Long-term receivables	10 724		10 724	39 380
C.II.1. Trade receivables				24 181
C.II.2. Receivables - controlling entity				
C.II.3. Receivables - substantial influence	10 098		10 098	14 400
C.II.4. Receivables from partners and association members				
C.II.5. Long-term prepayments made	626		626	621
C.II.6. Estimated receivables				
C.II.7. Other receivables				178

C.II.8.	Deferred tax asset				
C.III.	Short-term receivables	1 978 129	72 522	1 905 607	2 561 078
C.III.1.	Trade receivables	1 466 603	72 522	1 394 081	1 752 066
C.III.2.	Receivables - controlling entity				306 000
C.III.3.	Receivables - substantial influence	13 087		13 087	9 600
C.III.4.	Receivables from partners and association members				
C.III.5.	Social security and health insurance contributions				
C.III.6.	State - tax receivables	69 932		69 932	11 393
C.III.7.	Short-term prepayments made	60 116		60 116	59 186
C.III.8.	Estimated receivables	299 894		299 894	362 807
C.III.9.	Other receivables	68 497		68 497	60 026
C.IV.	Current financial assets	236 494		236 494	195 651
C.IV.1.	Cash on hand	2 376		2 376	2 195
C.IV.2.	Cash at bank	234 118		234 118	193 456
C.IV.3.	Short-term securities and investments				
C.IV.4.	Acquisition of current financial assets				
D.I.	Other assets	335 506		335 506	310 014
D.I.1.	Deferred expenses	333 444		333 444	310 014
D.I.2.	Complex deferred expenses				
D.I.3.	Accrued income	2 062		2 062	

		31. 12. 2010	31. 12. 2009
	TOTAL LIABILITIES & EQUITY	15 652 478	15 671 635
A.	Equity	7 966 756	8 230 296
A.I.	Share capital	8 494 000	8 800 000
A.I.1.	Share capital	8 494 000	8 800 000
A.I.2.	Treasury shares and holdings (-)		
A.I.3.	Changes in share capital		
A.II.	Capital funds	26 142	-484 634
A.II.1.	Share premium	138 540	138 540
A.II.2.	Other capital funds		
A.II.3.	Gains or losses from the revaluation of assets and liabilities	-112 398	-623 174
A.II.4.	Gains or losses from the revaluation upon transformations		
A.III.	Statutory funds	204 110	245 313
A.III.1.	Statutory reserve fund / Indivisible fund	60 653	60 653
A.III.2.	Statutory and other funds	143 457	184 660
A.IV.	Retained earnings	-330 383	97 331
A.IV.1.	Accumulated profits brought forward	97 331	97 331
A.IV.2.	Accumulated losses brought forward	-427 714	
A.V.	Profit or loss for the current period (+ -)	-427 113	-427 714
B.	Liabilities	7 618 767	7 409 147
B.I.	Reserves	293 945	41 659
B.I.1.	Reserves under special legislation		
B.I.2.	Reserve for pensions and similar liabilities		
B.I.3.	Income tax reserve		
B.I.4.	Other reserves	293 945	41 659
B.II.	Long-term liabilities	1 603 952	2 331 377
B.II.1.	Trade payables		
B.II.2.	Payables - controlling entity		
B.II.3.	Payables - substantial influence		
B.II.4.	Payables to partners and association members		
B.II.5.	Long-term prepayments received	89 957	163 044
B.II.6.	Bonds issued		
B.II.7.	Long-term bills of exchange to be paid		
B.II.8.	Estimated payables		
B.II.9.	Other payables	1 092 116	1 864 999
B.II.10.	Deferred tax liability	421 879	303 334
B.III.	Short-term liabilities	3 495 496	3 989 828
B.III.1.	Trade payables	2 532 439	2 595 909
B.III.2.	Payables - controlling entity		
B.III.3.	Payables - substantial influence		
B.III.4.	Payables to partners and association members		
B.III.5.	Payables to employees	292 536	283 783
B.III.6.	Social security and health insurance payables	125 232	123 391
B.III.7.	State - tax payables and subsidies	42 685	246 605
B.III.8.	Short-term prepayments received	78 737	136 135
B.III.9.	Bonds issued		
B.III.10.	Estimated payables	276 522	217 127
B.III.11.	Other payables	147 345	386 878
B.IV.	Bank loans and borrowings	2 225 374	1 046 283
B.IV.1.	Long-term bank loans		
B.IV.2.	Short-term bank loans	1 412 257	32 783
B.IV.3.	Short-term borrowings	813 117	1 013 500
C.I.	Other liabilities	66 955	32 192
C.I.1.	Accrued expenses	63 479	30 035
C.I.2.	Deferred income	3 476	2 157

**Profit and loss account structured by the nature of expense method.
Year ended 31. 12. 2010 (in CZK thousand)**

ČD Cargo, a.s., IČO 28196678, Jankovcova 1569, 170 00 Praha 7

	Period to 31. 12. 2010	Period to 31. 12. 2009
I. Sales of goods		
A. Costs of goods sold		
+ Gross margin		
II. Production	14 217 379	13 324 697
II.1. Sales of own products and services	14 120 917	13 271 743
II.2. Change in internally produced inventory		
II.3. Own work capitalised	96 462	52 954
B. Purchased consumables and services	8 490 582	7 698 363
B.1. Consumed material and energy	2 455 615	2 150 243
B.2. Services	6 034 967	5 548 120
+ Added value	5 726 797	5 626 334
C. Staff costs	4 706 577	4 956 148
C.1. Payroll costs	3 416 479	3 651 118
C.2. Remuneration to members of statutory bodies	6 839	5 332
C.3. Social security and health insurance costs	1 082 204	1 090 008
C.4. Social costs	201 055	209 690
D. Taxes and charges	2 806	4 669
E. Depreciation of intangible and tangible fixed assets	1 110 894	1 076 318
III. Sales of fixed assets and material	311 211	1 312 321
III.1. Sales of fixed assets	291 158	1 256 730
III.2. Sales of material	20 053	55 591
F. Net book value of fixed assets and material sold	192 440	962 384
F.1. Net book value of sold fixed assets	181 659	954 614
F.2. Book value of sold material	10 781	7 770
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	262 995	-15 454
IV. Other operating income	276 249	183 495
H. Other operating expenses	163 384	130 526
V. Transfer of operating income		
I. Transfer of operating expenses		
* Operating profit or loss	-124 839	7 559
VI. Proceeds from the sale of securities and investments		
J. Cost of securities and investments sold		
VII. Income from non-current financial assets	4 886	10 250
VII.1. Income from subsidiaries and associates		
VII.2. Income from other non-current securities and investments		
VII.3. Income from other non-current financial assets	4 886	10 250
VIII. Income from current financial assets		
K. Costs of financial assets		
IX. Income from the revaluation of securities and derivatives	8 550	1
L. Costs of the revaluation of securities and derivatives	216 972	376 087
M. Change in reserves and provisions relating to financial activities		
X. Interest income	3 217	5 093
N. Interest expenses	48 820	43 218
XI. Other financial income	162 146	157 169
O. Other financial expenses	206 260	148 641
XII. Transfer of financial income		
P. Transfer of financial expenses		
* Financial profit or loss	-293 253	-395 433
Q. Income tax on ordinary activities	9 021	49 332

Q 1.	- due	-2 054	5 834
Q 2.	- deferred	11 075	43 498
** Profit or loss from ordinary activities		-427 113	-437 206
XIII.	Extraordinary income		9 737
R.	Extraordinary expenses		245
S.	Income tax on extraordinary activities		
S.1.	- due		
S.2.	- deferred		
* Extraordinary profit or loss			9 492
T.	Transfer of share of profit or loss to partners (+/-)		
*** Profit or loss for the current period (+/-)		-427 113	-427 714
**** Profit or loss before tax		-418 092	-378 382

Statement of changes in equity. Year ended 31. 12. 2010 (in CZK thousand)

ČD Cargo, a.s., IČO 28196678, Jankovcova 1569, 170 00 Praha 7

	Share capital	Capital funds	Statutory and other funds	Statutory reserve funds	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2008	8 800 000	-901 561	80 522				303 264	8 282 225
Allocation to the reserve funds				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
Allocation to the reserve funds						-427 714	427 714	
Distribution of profit or loss	-306 000							-306 000
Revaluation of non-current financial assets		13 486						13 486
Change of fair value of hedging derivatives		604 760						604 760
Change in deferred tax on financial derivatives		-107 470						-107 470
Creation of the social fund								
Use of the social fund			-41 203					-41 203
Profit or loss for the current period							-427 113	-427 113
Profit or loss for the current period							-427 113	-427 113
Balance at 31 December 2010	8 494 000	26 142	143 457	60 653	97 331	-427 714	-427 113	7 966 756

Cash Flow statement. Year ended 31. 12. 2010 (in CZK thousand)

ČD Cargo, a.s., IČO 28196678, Jankovcova 1569, 170 00 Praha 7

		Period to 31. 12. 2010	Period to 31. 12. 2009
P.	Opening balance of cash and cash equivalents	195 651	243 984
	Cash flows from ordinary activities		
Z.	Profit or loss from ordinary activities before tax	-418 092	-387 874
A.1.	Adjustments for non-cash transactions	1 366 627	748 447
A.1.1.	Depreciation of fixed assets	1 110 894	1 076 318
A.1.2.	Change in provisions and reserves	262 996	-15 454
A.1.3.	Profit/(loss) on the sale of fixed assets	-109 499	-302 116
A.1.4.	Revenues from dividends and profit shares	-4 886	-10 250
A.1.5.	Interest expense and interest income	45 603	38 125
A.1.6.	Adjustments for other non-cash transactions	61 519	-38 176
A.*	Net operating cash flow before changes in working capital	948 535	360 573
A.2.	Change in working capital	471 457	287 464
A.2.1.	Change in operating receivables and other assets	290 312	320 541
A.2.2.	Change in operating payables and other liabilities	160 451	-54 124
A.2.3.	Change in inventories	20 695	21 047
A.2.4.	Change in current financial assets		
A.**	Net cash flow from operations before tax and extraordinary items	1 419 992	648 037
A.3.	Interest paid	-48 820	-43 218
A.4.	Interest received	3 217	5 093
A.5.	Income tax paid from ordinary operations	-46 116	-71 125
A.6.	Receipts and expenditures relating to extraordinary activities		9 492
A.7.	Received dividends and profit shares	4 886	10 250
A.***	Net operating cash flows	1 333 160	558 529
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-2 251 492	-2 098 767
B.2.	Proceeds from fixed assets sold	291 158	1 256 730
B.3.	Loans provided to related parties		
B.***	Net investment cash flows	-1 960 334	-842 037
	Cash flow from financial activities		
C.1.	Change in payables from financing	709 220	276 317
C.2.	Impact of changes in equity	-41 203	-41 142
C.2.1.	Cash increase in share capital		
C.2.2.	Capital payments to partners		
C.2.3.	Other cash contributions made by partners		
C.2.4.	Settlement of loss by partners		
C.2.5.	Payments from capital funds	-41 203	-41 142
C.2.6.	Dividends paid		
C.***	Net financial cash flows	668 017	235 175
F.	Net increase or decrease in cash and cash equivalents	40 843	-48 333
R.	Closing balance of cash and cash equivalents	236 494	195 651

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.

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

As of 31 December 2009, the Company's reported share capital of CZK 8,800,000 thousand which was fully paid in. 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. As of 31 December 2010, the share capital amounted to CZK 8,494,000 thousand.

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
- 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
- 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
- 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
- Safety advisory for the transportation of dangerous goods

As part of its business activities, the Company, in its role as transporter, operated almost 1,022 tariff points with dispatching authority for transportation of wagon loads and 1,274 railway sidings.

In terms of 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 in the years ended 31 December 2009 and 2010. In the year ended 31 December 2009, these costs also included the purchases of traction electricity. In the year ended 31 December 2010, traction electricity was purchased through České dráhy, a.s. The costs for the years ended 31 December 2009 and 2010 are disclosed in Notes 4.19 and 4.20.

The income of the Company predominantly includes compensation for increased costs incurred as a result of traffic closures. The income for the years ended 31 December 2009 and 2010 is disclosed in Note 4.22.

As of 31 December 2010, the Company records receivables from, and payables to, Správa železniční dopravní cesty, s.o., the aggregate

value of which represents a net payable of CZK 540,318 thousand (net of estimated payables) in the year ended 31 December 2010. In the year ended 31 December 2009, the aggregate net value of the receivables and payables represented a net payable of CZK 960,989 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 2010 and 2009 balance sheet dates and the Company accounted for the costs of consumed traction electricity at the average price level of 2008 as of the 2009 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 Chairman of the Board of Directors or divisional directors:

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

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 as the Company's general meeting, the supreme body of the Company,

in the capacity as the sole shareholder 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 the sole shareholder.

Bodies of the Company as of 31 December 2010:

Board of Directors of ČD Cargo, a.s.

- Jiří Vodička, Chairman of the Board of Directors
- Jiří Špička, Member of the Board of Directors
- Milan Matzenauer, Member of the Board of Directors
- Petr Bazger, Member of the Board of Directors

On 16 June 2010 and with effect from the same date, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Josef Bazala as Chairman and member of the Board of Directors, and Václav Andřýsek, Rodan Šenekl and Bogdan Heczko as members of the Board of Directors. Petr Žaluda, Michal Nebeský and Milan Matzenauer were appointed as new members of the Board of Directors.

At the extraordinary meeting of the Board of Directors held on 16 June 2010, Petr Žaluda was appointed Chairman of the Board of Directors.

On 25 June 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Petr Bazger as a member of the Board of Directors.

On 24 August 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Petr Žaluda from the position of a member of the Board of Directors as of 25 August 2010 at his own request. As of 25 August 2010, České dráhy, a.s. appointed Jiří Vodička to the position of a member of the Board of Directors.

At the 72nd meeting of the Board of Directors held on 25 August 2010, Jiří Vodička was appointed Chairman of the Board of Directors.

On 7 September 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Michal Nebeský from the position of Chairman of the Board of Directors as of 8 September 2010 at his own request. On 8 September 2010, České dráhy, a.s. appointed Jiří Špička to the position of a member of the Board of Directors.

At the 84th meeting of the Board of Directors held on 14 December 2010, Petr Bazger resigned as a member of the Board of Directors with effect from 31 December 2010.

Supervisory Board of ČD Cargo, a.s.

- Petr Žaluda, Chairman of the Supervisory Board
- Radek Nekola, 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
- Miroslav Zámečník, Member of the Supervisory Board

On 16 June 2010 and with effect from the same date, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Michal Nebeský as a member of the Supervisory Board.

On 22 June 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Miroslav Zámečník as a member of the Supervisory Board.

On 24 August 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Oldřich Vojíř as a member of the Supervisory Board as of 25 August 2010 at his own request. As of 25 August 2010, České dráhy, a.s. appointed Petr Žaluda as a member of the Supervisory Board.

On 7 September 2010, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Libor Joukl as a member of the Supervisory Board as of 8 September 2010 at his own request. On 8 September 2010, České dráhy, a.s. appointed Michal Nebeský as a member of the Supervisory Board.

At the 21st meeting of the Supervisory Board held on 5 October 2010, Petr Žaluda was appointed Chairman of the Supervisory Board.

Administration Board of ČD Cargo, a.s.

- Martin Sýkora, Chairman of the Administration Board
- Jiří Franc, Member of the Administration Board
- Jakub Kopřiva, Member of the Administration Board

At the 15th meeting of the Administration Board held on 15 February 2010, Petr Žaluda was appointed Chairman of the Administration Board.

On 21 May 2010, the term of office of a member of the Administration Board, Petr Vlasák, expired.

On 16 June 2010 and with effect from the same date, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the general meeting, recalled Petr Žaluda as a member of the Administration Board.

On 14 September 2010, České dráhy, a.s., as the sole shareholder of ČD Cargo, a.s., acting in the capacity of the general meeting, recalled Roman Boček as a member of the Administration Board as of 15 September 2010 at his own request. As of 15 September 2010, České dráhy, a.s. appointed Martina Sýkora, Jiří Franc, and Jakub Kopřiva members of the Administration Board pursuant to the proposal of the Czech Republic – Ministry of Transportation.

At the 18th meeting of the Administration Board held on 29 September 2010, Martin Sýkora was appointed Chairman of the Administration Board.

Audit Committee of ČD Cargo, a.s.

- Oldřich Vojíř – Chairman of the Audit Committee
- Miroslav Zámečník – Member of the Audit Committee
- Libor Joukl – Member of the Audit Committee

At the first meeting of the Audit Committee held on 18 February 2010, Oldřich Vojíř was appointed Chairman of the Audit Committee. No other changes were made in this body during the reporting period.

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 2010 are prepared as follows:

- The balance sheet contains comparative information as of 31 December 2009
- The profit and loss account contains comparative information for the year ended 31 December 2009
- The statement of changes in equity contains comparative information as of 31 December 2009 and 31 December 2008
- The cash flow statement contains comparative information for the year ended 31 December 2009

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 (part of locomotives without components)	Straight line	20-25 / 5-4 %
Wagons (part of wagons without components)	Straight line	30 / 3.33%
Machinery and equipment	Straight line	8 - 20 / 12.5 – 5 %

Extended Useful Lives of Wagons

As part of accounting closing procedures which involve assessing the established useful lives of assets, the useful lives of wagons were changed. This change was implemented following a detailed analysis performed by the Maintenance and Repairs of Railway Vehicles Department, with effect from 1 January 2010.

The change in useful lives includes the extension of the remaining useful lives of wagons by five years in order to extend the overall useful lives of wagons to 30 years from the originally considered 25 years. As such, the useful lives of newly purchased wagons will be set at 30 years.

The useful lives of wagons that were modernised prior to 1 January 2010 were set at 20 years from the modernisation date.

As this is a change of estimate, depreciation for accounting purposes changed from 1 January 2010 prospectively.

Useful lives of other assets did not change pursuant to the analysis.

Change in the Policy of Accounting for Components

As disclosed in Note 3.20. Changes in Accounting Policies, the Company changed the policy of accounting for significant repairs that are repeated on a regular basis in pre-determined cycles as of 1 January 2010. The change in the accounting policy is made in line with Section 56 of Regulation No. 500/2002 Coll., which newly establishes and adjusts the method of the component depreciation of assets. Pursuant to an analysis, the Company identified repairs that comply with the definition for an inspection of fault occurrence as listed in Section 56 (2) of Regulation No. 500/2002 Coll., thereby meeting the 'component' definition. According to Section 56 (2) of Regulation No. 500/2002 Coll., the component is an inspection of fault occurrence for which the valuation amount is significant in proportion to the amount of the valuation of total assets or a set of assets and the useful life of which significantly differs from the useful life of assets or a set of assets.

Depreciation of Components

In accordance with Section 56, (3) or (5) of Regulation No. 500/2002 Coll., the Company depreciates the component during the use separately from other components and from the remaining part of assets or a set of assets.

The Company determined a depreciation plan for components. With respect to wagons, the depreciation plan corresponds to the frequency of technical inspections. The depreciation period of components in wagons is as follows:

- Wagons with the speed lower than 120 km/hour 2 years
- Wagons with the speed lower than 100 km/hour 6 years
- Wagons with short spring carriers 4 years

In traction vehicles for which the frequency of repairs depends on the mileage, the average depreciation period was determined by a professional estimate of the Maintenance and Repairs of Railway Vehicles Department specialists, for each series of traction vehicles. The average depreciation period for general repairs ranges from 4 to 12 years, for major repairs from 8 to 24 years. The performance of a component repair extends the useful life of assets to the end of component depreciation, if the originally determined useful life was shorter.

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	5-8 /12, 5-30 %
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 and 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 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 business risks is established on the basis of a reasonable estimate as equal to the estimated future cash outflows.

The reserve for complaints in freight transportation is created using a reasonable estimate of the amount of anticipated future cash outflows.

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.

Changes in Accounting Policies

Component Depreciation

The Company changed the policy of accounting for significant repairs that are repeated on a regular basis in pre-determined cycles as of 1 January 2010. The change in the accounting policy is made in line with Section 56 of Regulation No. 500/2002 Coll., which newly establishes and adjusts the method of the component depreciation of assets. Pursuant to an analysis, the Company identified repairs that comply with the definition for an inspection of fault occurrence as listed in Section 56 (2) of Regulation No. 500/2002 Coll., thereby meeting the 'component' definition. According to Section 56 (2) of Regulation No. 500/2002 Coll., the component is an inspection of fault occurrence for which the valuation amount is significant in proportion to the amount of the valuation of total assets or a set of assets and the useful life of which significantly differs from the useful life of assets or a set of assets.

The principal objective of this change is to make the matching of costs and income more accurate, as it is apparent that the effects arising from the costs incurred in the inspection of fault occurrence flow to the Company in the following period and to additionally minimise the differences between Czech Accounting Standards and International Financial Reporting Standards where significant repairs are capitalised at the moment of origination and depreciated pursuant to anticipated useful lives. The application of this policy before 31 December 2009 under which all costs arising from the inspection of fault occurrence of wagons are recognised as repairs when realised has a negative impact on the profit of the relevant reporting period. The adoption of the component depreciation approach provides a more accurate presentation of the matching of expenses and income as stipulated in Section 3 (1) of the Accounting Act.

In accordance with the Regulation referred to above, specifically the materiality principle, the Company determined the component for wagons and traction vehicles.

Component in Wagons

In accordance with Section 64 of Regulation No. 173/1995 Coll., whereby the Railway Transportation Rules are issued, as amended, wagons are subject to regular technical inspections. In accordance with Appendix No. 5 to this Regulation, the below listed types of wagons are subject to inspections at the following intervals:

- Wagons with the speed lower than 120 km/hour 2 years
- Wagons with the speed lower than 100 km/hour 6 years
- Wagons with short spring carriers 4 years

The scope of the inspection is stipulated in Appendix No. 6 to the Regulation referred to above. The completed inspection in the scope of an inspection repair under Regulation KVs5-B-2010 guarantees the operability and safety of wagons for another interval until the following inspection. After the expiry of the interval, it is necessary to make another inspection. Without completing another inspection and other potential necessary relating repairs under Regulation KVs5-B-2010, the wagons cannot be operated. In general, the inspection involves gauging parts or testing the functioning of components providing for safety and functionality. Examples include wheel sets, switchboards, arrester distance holders, wagon springs, springs, traction gear, screw couplings, buffer gear, geometry of the car underbody, chassis frame, body and cargo space tightness, etc.

Based upon the analysis and in accordance with Section 56 of Regulation No. 500/2002 Coll. the Company determined that the component for wagons, including tank wagons, represents a regular technical inspection.

Component in Traction Vehicles

Based on an analysis similar to that undertaken in respect of wagons, the Company determined that the component for traction vehicles represents a major and a general repair.

The major repair is a periodical repair carried out under Guideline KVs1-B-2009 according to the determined scope. The determined scope focuses on the inspection, repairs and exchange of all worn parts of the vehicle.

The general repair is a periodical repair carried out under Guideline KVs1-B-2009 according to the determined scope. The determined scope focuses on the inspection, repairs and exchange of all parts of the vehicle that are worn out most rapidly. For electrical vehicles, the scope includes primarily parts of undercarriage; for motor vehicles, it additionally includes combustion engines. The frequency of repairs is determined reflecting mileage. For this reason, the frequency of repairs for individual traction vehicles differs.

Initial Measurement of Components

The technical inspection in the scope of a review repair under Guideline KVs5-B-2010 in wagons may be carried out by an external supplier or through the use of intracompany services. In the event of intracompany services, the value of the component is measured at direct and indirect costs. In the event of the performance by an external supplier, the value of the component is measured at cost. The cost includes the cost of acquisition of the component including all relating costs.

The major or general repair of traction vehicles is currently carried out usually by an external supplier. For this reason, the value of the component is measured at cost. The cost include the cost of acquisition of the component including all relating costs. If the repair is carried out using intracompany services, the value of the component is measured at direct and indirect costs.

Depreciation of Components

In accordance with Section 56 (3) or (5) of Regulation No. 500/2002 Coll., the Company depreciates the component during the use separately from other components and the remaining part of assets or a set of assets and concurrently is able to evidence the amount of depreciation from components and the amount of depreciation from the remaining part of assets.

The depreciation of components is calculated from the price at which the component is measured in the accounting books and records upon the acquisition of the component, up to its amount.

The Company determined a depreciation plan for the components. With respect to wagons, the depreciation plan corresponds to the frequency of technical inspections. The depreciation period of components in wagons is as follows:

- Wagons with the speed lower than 120 km/hour 2 years
- Wagons with the speed lower than 100 km/hour 6 years
- Wagons with short spring carriers 4 years

In traction vehicles for which the frequency of repairs depends on the mileage, the average depreciation period was determined by a professional estimate of the Maintenance and Repairs of Railway Vehicles Department specialists, for each series of traction vehicles. The average depreciation period for general repairs ranges from 4 to 12 years, for major repairs from 8 to 24 years. The completion of a component repair extends the useful life of assets from the end of component depreciation, if the originally determined useful life was shorter.

Disposal of Components

If a new component is put into use, the original component at net book value is disposed of and recognised in expenses.

Division of Total Measurement of Assets as of 1 January 2010 into the Component and Remaining Value of Assets

In accordance with Section 56 (6) of Regulation No. 500/2002 Coll., the Company divided the total measurement of assets (structured as gross, adjustment and net) into the part relating to components and the part relating to the remaining part of assets. In accordance with the Regulation, the total of net book values did not exceed the net book value of all assets as of 1 January 2010.

For wagons, the value of the component was set for most of wagons at CZK 0 as of 1 January 2010 as all expenses relating to technical inspections have been recognised in expenses of the reporting period since the formation of the Company as of 1 December 2007. In the past, these expenses did not increase the value of assets. Exceptions included technical inspections carried out as part of the modernisation of wagons. The modernisation of wagons always includes a technical inspection. Since the modernisation is treated as an improvement on assets, the value of wagons that were modernised increased in the past. For this reason, the total value of assets in these wagons was divided into the value of the component and the remaining value of the vehicles as of 1 January 2010.

In traction vehicles, the value of the major and general repairs since the formation of the Company has been classified as a technical improvement and consequently increased the value of individual traction vehicles in the form of technical improvements. For this reason, the expenses relating to the major and general repairs were classified as components in the past and their net book value was calculated as of 1 January 2010. In accordance with the Regulation, the net book value of these repairs was assigned to the component and the remaining part was assigned to the remaining value of the assets.

Impact of the Change in the Policy for the Year Ended 31 December 2010

As of 1 January 2010, the Company changed the policy of accounting for significant repairs which are repeated regularly in pre-determined cycles. The change in the accounting policy is made in line with Section 56 of Regulation No. 500/2002 Coll., which newly stipulates and defines the method of component depreciation of assets.

The principal objective of this change is to make the matching of costs and income more accurate, as it is apparent that the effects arising from the costs incurred in the inspection of fault occurrence flow to the Company in the following period and to additionally minimise the differences between Czech Accounting Standards and International Financial Reporting Standards where major repairs are capitalised at the moment of origination and depreciated pursuant to anticipated useful lives.

Impact on the Profit and Loss Account for the Year Ended 31 December 2010 and the Balance Sheet as of 31 December 2010

The separation of the value of components at the beginning of 2010 was negatively reflected in the profit for 2010 in the form of increased depreciation charges of CZK 100,683 thousand.

The addition to components in traction vehicles for the year ended 31 December 2010 negatively impacted the profit for 2010 in the form of increased depreciation charges of CZK 4,115 thousand.

The addition to components in wagons for the year ended 31 December 2010 amounted to CZK 506,981 thousand. This amount positively impacted the profit for 2010 as this amount would have been classified as a repair under the original accounting treatment with an immediate impact on the profit. The depreciation of these components newly brought into use amounted to CZK 51,271 thousand which negatively impacted the profit for 2010.

The impacts on the profit and loss account referred to above were also reflected in the balance sheet as of 31 December 2010 in the line "Individual movable assets" in the identical amount.

Classification of Production Compensation

Production compensation with AWT SPEDI-TRANS s.r.o. in the year ended 31 December 2010 is classified as services in profit and loss account line item B.2 'Services'. This change was made following an analysis of the contractual arrangement with AWT SPEDI-TRANS s.r.o. and complies with applicable accounting regulations and the principle of the true and fair view of accounting transactions. In the prior reporting period, this compensation was classified as a decrease in the Company's income in profit and loss account line item II. 'Production'.

Cash Flow Statement

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

	(CZK '000)	
	31 Dec 2010	31 Dec 2009
Cash on hand and cash in transit	2 376	2 195
Cash at bank	234 118	193 456
Total cash and cash equivalents	236 494	195 651

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 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Transfers	Balance at 31 Dec 2010
Start-up costs	28 492	0	0	28 492	0	0	0	28 492
Software	235 153	52 663	7 014	280 802	76 330	0	-56 687	300 445
Valuable rights	4 265	6 100	0	10 365	47 252	0	56 687	114 304
Intangible FA under construction	75 988	93 955	82 467	87 476	80 869	126 445	0	41 900
Total	343 898	152 718	89 481	407 135	204 451	126 445	0	485 141

(CZK '000)							
	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Transfers	Balance at 31 Dec 2010
Start-up costs	4 274	5 698	0	9 972	5 699	0	15 671
Software	78 011	83 457	2 011	159 457	40 934	-24 274	176 117
Valuable rights	780	2 340	0	3 120	18 708	24 274	46 102
Total	83 065	91 495	2 011	172 549	65 341	0	237 890

(CZK '000)			
	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Start-up costs	24 218	18 520	12 821
Software	157 142	121 345	124 328
Valuable rights	3 485	7 245	68 202
Intangible FA under construction	75 988	87 476	41 900
Total	260 833	234 586	247 251

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

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 years ended 31 December 2010 and 2009 amounted to CZK 5,698 thousand and CZK 5,698 thousand, respectively.

Tangible Fixed Assets

COST (CZK '000)								
	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Transfers	Balance at 31 Dec 2010
Land	72 616	40 418	0	113 034	3 106	34 900		81 240
Buildings	955 470	107 851	403	1 062 918	97 144	2 904	1 038	1 158 196
Individual movable assets	19 040 578	1 832 260	2 022 613	18 850 225	1 544 772	769 711	-1 038	19 624 248
- of which components				1 573 133	871 328	95 023	0	2 349 438
- Machinery, equipment, furniture and fixtures	411 522	34 229	24 629	421 122	46 934	47 713	-1 038	419 305
- Vehicles	18 603 551	1 798 031	1 992 422	18 409 160	1 497 025	715 781	943	19 191 346
-Low value tangible assets	25 505	0	5 562	19 943	813	6 217	-943	13 597
Works of art	19	29	0	48	0	0	0	48
Tangible fixed assets under construction	120 602	1 957 878	1 977 101	101 379	1 639 872	1 646 069	0	95 182
Prepayments for tangible fixed assets	6 490	392 938	328 346	71 082	217 627	49 282	0	239 427
Valuation difference on acquired assets	5 611 411	0	0	5 611 411	0	0	0	5 611 411
Total	25 807 186	4 331 374	4 328 463	25 810 097	3 502 521	2 502 866	0	26 809 752

ACCUMULATED DEPRECIATION (CZK '000)								
	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Transfers	Balance at 31 Dec 2010
Buildings	515 048	20 493	308	535 233	23 230	162	389	558 690
Individual movable assets	12 823 177	1 544 850	2 028 099	12 339 928	624 479	563 669	-389	12 400 349
-of which components	0	0	0	476 719	232 374	16 931	0	692 162
- Machinery, equipment, furniture and fixtures	328 451	16 095	24 558	319 988	14 080	43 184	-389	290 495
- Vehicles	12 471 117	1 527 786	1 997 464	12 001 439	610 093	514 426	101	12 097 207
-Low value tangible assets	23 609	969	6 077	18 501	306	6 059	-101	12 647
Valuation difference on acquired assets	405 269	374 094	0	779 363	374 094	0	0	1 153 457
Total	13 743 494	1 939 437	2 028 407	13 654 524	1 021 803	563 831	0	14 112 496

PROVISIONS (CZK '000)								
	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals		Balance at 31 Dec 2010
- Vehicles	96 557	32 655	96 557	32 655	34 549	32 655		34 549
Total	96 557	32 655	96 557	32 655	34 549	32 655		34 549

NET BOOK VALUE (CZK '000)			
	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	72 616	113 034	81 240
Buildings	440 422	527 685	599 506
Individual movable assets	6 120 844	6 477 642	7 189 350
- of which components	0	1 096 414	1 657 276
- Machinery, equipment, furniture and fixtures	83 071	101 134	128 811
- Vehicles	6 035 877	6 375 066	7 059 590
-Low value tangible assets	1 896	1 442	950
Works of art	19	48	48
Tangible fixed assets under construction	120 602	101 379	95 182
Prepayments for tangible fixed assets	6 490	71 082	239 427
Valuation difference on acquired assets	5 206 142	4 832 048	4 457 954
Total	11 967 135	12 122 918	12 662 707

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 amount of CZK 34,549 thousand.

In the years ended 31 December 2010 and 2009, the Company acquired tangible fixed assets recognised in expenses in the amounts of CZK 36,325 thousand and CZK 42,878 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.

Prepayments made for tangible fixed assets amount to CZK 239,427 thousand as of 31 December 2010 and relate to the ongoing modernisation of traction vehicles from series 163 to series 363.

Fixed Assets Pledged as Security
As of 31 December 2010 and 2009, no assets of the Company were pledged as security.

Investment Grants
In the years ended 31 December 2010 and 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 2010 from the inception of the lease	Due in 2011	Due in following years
Locomotive 709	I.07	120	56 220	5 403	50 817	22 853	5 410	27 956
Locomotive 753	XII.08	120	1 182 440			143 570	117 866	921 004
Locomotive 230	XII.10	120	272 268	0	0	42 382	23 181	206 705
Wagons:								
Sgnss	I.07	123	417 520	27 884	389 636	159 339	41 270	216 911
Sgnss – Framework contract	X.05	96	144 722	40 135	104 587	96 202	17 886	30 634
Habbilnss „	XII.05	96	851 973	180 953	671 020	517 398	104 563	230 013
Zacns „	IV.06	96	79 343	15 523	63 820	46 885	9 728	22 729
Tadnss/Tadgnss „	V.06	96	285 864	50 702	235 162	162 574	35 062	88 228
Sggrmrss 90´	XII.07	60	381 804			164 806	60 313	156 684
Sggrss 80´	VII.08	60	709 064			241 942	112 010	355 112
Zacns	X.10	120	199 852			2 644	19 982	177 226
ŽNV 1145 pieces	XII.09	120	1 476 505			383 005	121 500	972 000
Total			6 057 575	320 600	1 515 042	1 983 599	668 771	3 405 203

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 2010. During 2010, instalments made amounted to CZK 21,945 thousand. During 2009, instalments made amounted to CZK 20,264 thousand.

In August 2010, the Company concluded the contract for the lease of computers (end equipment – desktops, laptops) with ČD-Telematika, a.s. The total operating lease payments as of 31 December 2010 amounted to CZK 4,185 thousand.

Non-Current Financial Assets

COST								
(CZK '000)								
	Cost			Carrying value				
	Balance at 31 Dec 2008	Additions	Transfers	Revaluation at 31 Dec 2009	Balance at 31 Dec 2009	Additions	Revaluation at 31 Dec 2010	Balance at 31 Dec 2010
Equity investments in subsidiaries	28 442	2 200	4 068	7 274	41 984	36 994	6 286	85 264
Equity investments in associates	25 871		- 4 068	2 541	24 344	0	7 200	31 543
Total	54 313	2 200	0	9 815	66 328	36 994	13 486	116 807

Equity Investments in Subsidiaries

YEAR ENDED 31 DECEMBER 2010							
(CZK '000)							
Name of the entity	Registered office	Valuation at 31 Dec 2009	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2010
CD Generalvertretung GmbH	Kaiserstrasse 60, 60 329 Frankfurt am Main, Germany	7 808	4 252	100	12 059	9 371	12 059
Koleje Czeskie Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-131 Warsaw, Poland	5 407	4 979	100	10 386	4 773	10 386
CD – Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Vienna, Austria	7 359	-26	100	7 332	2 010	7 332
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozska 4/B, 821 09 Bratislava	6 159	246	100	6 405	2 150	6 405
Terminal Brno, a.s.	Brno, K terminálu 614/11, 619 00	1 214	-2 374	66,94	53 534	-1 824	35 834
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189, 410 02	3 040	52	51	6 062	117	3 092
ČD Trans s.r.o.	Leninova 22, 224005 Brest, Belarus	0	0	51	*	-448	0
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37, 110 00	10 997	-843	56	18 133	3 770	10 154
Total		41 984	6 286				85 264

*) - Information was not available as of the balance sheet date
- equity and profit or loss of the entity are preliminary unaudited figures

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.	Grzybowska nr 4, lok. 3, 00-131Warsaw, 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.	Leninova 22, 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

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

On 11 November 2010, ČD Cargo increased its equity investment in Terminal Brno, a.s. through a non-cash investment of CZK 36,994 thousand to the aggregate equity investment of 66.94%.

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 2,000 thousand. The equity investment in ČD Cargo was 60.5 percent (i.e. CZK 1,210 thousand). With effect from 11 November 2010, Terminal Brno, a.s. increased its share capital through a non-cash investment to CZK 55,350 thousand. The new equity investment of ČD Cargo is 66.94%. 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). The company has been dormant.

ČD Logistics, a.s.

The company was formed through a cash transaction on 17 April 2007 and recorded in the Register of Companies on 16 June 2007. The share capital amounts to CZK 10,000 thousand. On 28 January 2008, ČD Cargo purchased a 34% equity investment in ČD Logistics, a.s. (CZK 3,400 thousand). On 2 December 2009, ČD Cargo purchased a 22% equity share in ČD Logistics, a.s. (CZK 2,200 thousand). Currently, ČD Cargo holds the total of 56% of the share capital of ČD Logistics, a.s. (CZK 5,600 thousand). 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 4,000 thousand. The equity investment of ČD Cargo is 51 percent (i.e. CZK 2,040 thousand). 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 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 information services for customers of ČD Cargo.

Koleje Czeskie Sp. z o.o.

The company was formed through a 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 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 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 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. (ИООО «ЧД Транс»)

The company was formed on 4 February 2008 through a 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). On 30 April 2010, the owners changed following the sale of the equity investments of NH - Trans, SE (25%) and Česká východní, a.s. (24%) to Koleje Czeskie Sp. z o.o. (49%). The company is engaged in transportation and transport of cargo including services in the Brest terminal. The company has been dormant.

Equity Investments in Associates

YEAR ENDED 31 DECEMBER 2010							(CZK '000)
Name of the entity	Registered office	Valuation at 31 Dec 2009	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2010
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, PSČ 110 00	3 584	-1 040	30	8 478	-3 499	2 543
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, PSČ 702 00	20 760	8 240	20	145 000	41 500	29 000
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, čp. 1112, PSČ 152 00	0	0	50	-2 145	7 710	0
Total		24 344	7 200				31 543
- Equity and profit or loss of the entity are preliminary unaudited figures							

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
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, PSČ 110 00	4 949	-1 365	30	11 945	-4 974	3 584
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, PSČ 702 00	16 854	3 906	20	103 801	19 531	20 760
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, čp. 1112, PSČ 152 00	0	0	50	-5 370	5 978	0
Total		21 803	2 541				24 344
- Equity and profit or 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.							

On 2 December 2009, ČD Cargo purchased an additional 22% equity investment in ČD Logistics, a.s.

RAILLEX, a.s.

The company was formed through a cash investment and recorded in the Register of Companies on 17 June 2006. The share capital is CZK 2,000 thousand. ČD Cargo holds the equity investment of 50 % (CZK 1,000 thousand). The company is managed using a standard governance method. The company is engaged in the handling of cargo and technical services in transportation.

BOHEMIAKOMBI, spol. s r.o.

The company was formed through a cash investment and recorded in the Register of Companies on 17 April 1992. The share capital is CZK 6,000 thousand. ČD Cargo holds an equity investment of 30 percent (CZK 1,800 thousand). 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 15,000 thousand. The equity investment of ČD Cargo is 20 percent (i.e. CZK 3,000 thousand). 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

In the past, ČD Cargo concluded a loan contract and contract for the sale of a railway siding with RAILLEX, a.s. (in which ČD Cargo holds 50%). The below table shows the current balance of outstanding receivables.

BALANCE AT 31 DECEMBER 2010				(CZK '000)
LOAN	Long-term portion of the loan	Short-term portion of the loan	Total	
Total	18 064	5 588	23 652	
Principal	16 800	4 800	21 600	
Interest	1 264	788	2 052	
RAILWAY SIDING	Long-term portion of the loan	Short-term portion of the loan	Total	
Total	10 098	7 499	17 597	
Principal	9 287	4 643	13 930	
Interest	811	2 856	3 667	

The long-term portion of the unpaid loan including interest of CZK 18,064 thousand is presented under B. III. 4. Loans and borrowings to subsidiaries. The short-term portion of CZK 5,588 thousand is presented under C. III. 3. Receivables – controlling entity.

The long-term receivable from the sale of a railway siding including the interest of CZK 10,098 thousand is presented under C. II. 3. Receivables – controlling entity. The short-term portion of CZK 7,499 thousand is presented under C. III. 3. Receivables – controlling entity.

BALANCE AT 31 DECEMBER 2009				(CZK '000)
LOAN	Long-term portion of the loan	Short-term portion of the loan	Total	
Total	14 400	9 600	24 000	
Principal	14 400	9 600	24 000	
Interest	0	0	0	
RAILWAY SIDING	Long-term portion of the loan	Short-term portion of the loan	Total	
Total	17 119	3 830	20 949	
Principal	15 727	3 096	18 823	
Interest	1 392	735	2 127	

The long-term portion of the unpaid loan including interest of CZK 14,400 thousand is presented under C. II. 3. Receivables – controlling entity. The short-term portion of CZK 9,600 thousand is presented under C. III. 3. Receivables – controlling entity.

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.

The long-term receivable from the sale of a railway siding including the interest of CZK 17,119 thousand is presented under C. II. 1. Receivables – controlling entity. The short-term portion of CZK 3,830 thousand is presented under C. III. 1. Receivables – controlling entity.

Inventory

	(CZK '000)	
	31 Dec 2010	31 Dec 2009
Spare parts and other components for rail vehicles and locomotives	47 678	50 368
Other spare parts and other low value components	56 939	63 574
Fuels and other crude oil based products	2 989	2 195
Rail switches, turntables, traversers and components for the track super-structure	827	7
Work shoes and protective supplies	795	1 117
Other	9 754	24 419
Total acquisition cost	118 981	141 680
Provisions	0	0
Net balance	118 981	141 680

In the years ended 31 December 2010 and 2009, 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 2010 gross	1 466 603	1 214 470	252 131	82 810	3 770	19 031	39 314	107 207
31 Dec 2010 provisions	-72 522	0	-72 522	-1 797	-514	-4 157	-18 902	-47 153
31 Dec 2010 net	1 394 081	1 214 470	179 609	81 013	3 256	14 874	20 412	60 054
1 Dec 2009 gross	1 815 769	1 543 560	272 209	84 288	17 193	47 539	48 048	75 141
1 Dec 2009 provisions	-63 703	-385	-63 318	-2 214	-2 572	-13 018	-24 503	-21 011
1 Dec 2009 net	1 752 066	1 543 175	208 891	82 074	14 621	34 521	23 545	54 130

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 re-payment schedules.

The increase in the provision against receivables as of 31 December 2010 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

	(CZK '000)	
Name of the entity	Balance at 31 Dec 2010	Balance at 31 Dec 2009
DPOV, a.s.	10 198	1 104
ČD, a.s.	8 178	12 494
Výzkumný Ústav Železniční, a.s.	1 122	532
Traťová strojní společnost, a.s.	*)	206
ČD – Telematika, a.s.	37	29
Dopravní vzdělávací institut, a.s.	0	5
Total short-term intercompany receivables	19 535	14 370

*) Traťová strojní společnost, a.s. was no longer included in the group as of 31 December 2010

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 incorporation date was presented as a receivable from České dráhy as of 31 December 2009. During 2010, this receivable was offset against the payable to České dráhy.

Estimated Receivables

As of 31 December 2009 and 31 December 2010, the Company recognised estimated receivables as follows:

	(CZK '000)	
	31 Dec 2010	31 Dec 2009
Income from international transportation of wagon loads - export	25 096	43 929
Income from international transportation of wagon loads - import	22 312	38 212
Income from international transportation of wagon loads - transit	73 772	82 219
Income from local transportation of wagon loads	0	260
Other estimated receivables (lease and repairs of wagons, financial bonuses, damages)	137 490	160 991
Income from border services	40 794	37 196
Estimated receivables - ČD, a.s	430	0
Total estimated receivables	299 894	362 807

Deferred Expenses

Deferred expenses amounted to CZK 333,444 thousand and CZK 310,014 thousand as of 31 December 2010 and 31 December 2009, respectively. As of 31 December 2010, this amount predominantly included lease instalments of CZK 276,728 thousand and deferred interest from issued bills of exchange of CZK 13,169 thousand. As of 31 December 2009, lease payments amounted to 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 Regis-

ter of Companies in the following reporting period, on 5 January 2010. As of 31 December 2010, the share capital amounted to CZK 8,494,000 thousand.

Changes in Equity

Changes in equity are presented in the Statement of Changes of Equity as of 31 December 2010.

Gains and Losses from the Revaluation of Assets and Liabilities

(CZK '000)		
	31 Dec 2010	31 Dec 2009
Valuation of derivatives hedging future cash flows	- 169 048	- 773 808
Valuation of an equity investment accounted for using the equity method of accounting	28 654	15 168
Deferred tax on derivatives	27 996	135 466
Total	- 112 398	- 623 174

Reserves

(CZK '000)							
	Balance at 31 Dec 2008	Recognition	Use	Balance at 31 Dec 2009	Recognition	Use	Balance at 31 Dec 2010
Reserve for complaints	17 600	8 252	17 600	8 252	19 165	8 252	19 165
Reserve for legal disputes	8 000	9 017	8 000	9 017	7 198	9 017	7 198
Reserve for outstanding vacation days	28 824	24 390	28 824	24 390	27 582	24 390	27 582
Reserve for business risks	0	0	0	0	240 000	0	240 000
Total	54 424	41 659	54 424	41 659	293 945	41 659	293 945

As of 31 December 2010, the Company's management, which was significantly changed during the reporting period (refer to Note 1.5.), reassessed all available facts and existing legal analyses of ongoing legal disputes, and it considered all the results of negotiations with the representatives of counterparties. Following careful considerati-

on of all the risks, as well as the development of the legal disputes, and exercising an appropriate level of caution and prudence, management has decided to recognise a tax non-deductible reserve of CZK 240,000 thousand to cover expenses, if any, relating to potential risks associated with future business transactions.

Long-Term Payables

(CZK '000)		
	31 Dec 2010	31 Dec 2009
Long-term prepayments received	89 957	163 044
Long-term supplier payables	1 092 116	1 864 999
Total	1 182 073	2 028 043

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 2010	2 532 439	2 497 269	35 170	34 201	147	809	13	0
31 Dec 2009	2 595 909	2 559 075	36 834	36 753	-87	158	10	0

Intercompany Payables

SHORT-TERM TRADE PAYABLES

(CZK '000)		
Name of the entity	Balance at 31 Dec 2010	Balance at 31 Dec 2009
České dráhy a.s.	329 204	115 808
ČD – Telematika, a.s.	85 635	51 912
DPOV, a.s.	33 449	13 856
Traťová strojní společnost, a.s.	*)	229
ČD travel, s.r.o.	2 040	1 322
Dopravní vzdělávací institut, a.s.	0	-2 293
RAILREKLAM, spol. s r.o.	0	820
Výzkumný Ústav Železniční, a.s.	0	1071
Total short-term payables	450 328	182 725

*) Traťová strojní společnost, a.s. was no longer included in the group as of 31 December 2010

Estimated Payables

As of 31 December 2009 and 31 December 2010, the Company recognised estimated payables as follows:

(CZK '000)		
	31 Dec 2010	31 Dec 2009
Unbilled non-investment supplies	104 526	69 268
Unbilled investment supplies	0	1 360
Other estimated payables (predominantly repairs and lease of wagons)	132 210	11 646
Expenses for border services	32 187	32 519
Estimated payables - ČD-T, a.s.	39	54
Estimated payables - ČD, a.s.	7 560	102 280
Total estimated payables	276 522	217 127

Bank Loans

Long-Term Bank Loan

The Company used no long-term loans as of 31 December 2009 and 2010.

Short-Term Bank Loans

(CZK '000)				
Bank	Loan currency	Balance at 31 Dec 2010	Interest rate	Form of collateral
Československá obchodní banka, a.s.	CZK	377 981	O/N Pribor+0,80 p.a.	No collateral
Komerční banka, a.s.	CZK	400 000	O/N Pribor+0,78 p.a.	No collateral
Komerční banka, a.s.	CZK	10 680	O/N Pribor+0,98 p.a.	No collateral
Všeobecná úvěrová banka, a.s.	CZK	317 613	O/N Pribor+0,65 p.a.	No collateral
ING Bank N. V.	CZK	164 794	O/N Pribor+0,38 p.a.	No collateral
Citi Bank Europe, plc	CZK	141 189	O/N Pribor+0,45 p.a.	No collateral
Total		1 412 257		
(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		

Short-Term Financial Borrowings

On 13 July 2009, the Company began issuing debt bills. The aggregate amount of these transactions was CZK 813,117 thousand with maturity until November 2011. As of 31 December 2009, the aggregate amount of these transactions was CZK 1,013,500 thousand with maturity within 6 months.

Strategy for Funding the Company's Subsequent Years

Lease-back

With respect to modernising the traction vehicles, the Company plans to use lease-back funding to modernise the first 13 locomotives of the 163 series to the 363 series in the amount of CZK 778.05 million.

Operating Bank Loans

In funding its operating needs, ČD Cargo uses overdraft and revolving loans advanced by five banks in the maximum amount of CZK 1.8 billion. The increase in competition among the banks allowed the Company to secure lower interest rates. The stratification of the lending to several financing entities results in the risk of the termination of the funding being sufficiently diversified.

Bill of Exchange Programme

In order to strengthen its cash flows, the Company approved the bill

of exchange programme in the amount of CZK 1.5 billion in 2009. This programme is currently used in the aggregate amount of CZK 1 billion with the maturities of individual bills of exchange not exceeding the end of 2011.

In 2011, the Company intends to replace the short-term sources of funding with mid-term and long-term sources using the bond programme.

If the bond programme is successful, the funding under the bill of exchange programme will be discontinued gradually at the maturities of individual realised bills of exchange. The bill of exchange framework facility will be retained as a possible form of short-term funding that is independent of bank funding sources.

Bonds

With a view to securing the mid-term and long-term sources of funding to increase the stability of the Company's cash flows, the relevant bodies of ČD Cargo approved the bond programme in the aggregate amount of CZK 6 billion for 10 years. In 2011, individual issues will be gradually placed up to the amount of CZK 3 billion.

This form of funding reduces the risk of a lack of liquidity arising from the option to apply termination periods on bank loans.

Lease

To fulfil the strategic task involving the long-term achievement of the required level of financial stability and the strengthening of the cash flow in relation to the insufficient share of long-term sources of funding in terms of the existing and intended level of acquisition of non-current assets, the Company has the objective to arrange for leases to become an achievable form of long-term funding in 2011 and in the following years.

Summary

The structure of funding above creates a desired framework that allows the Company to maintain financial stability with the possibility of flexibly using individual forms as deemed appropriate or necessary.

Based on the planned funding structure, the Company will achieve a sufficient volume of available sources for funding its operating and investment activities with a sufficient reserve for potential unfavourable developments (shortfall in sales, change in the payment discipline, payment terms, legislative changes, etc.).

Derivative Financial Instruments

(CZK '000)			
31 Dec 2010			
	Positive fair value	Negative fair value	Total
Derivatives designated as fair value hedges	0	30 000	-30 000
Derivatives designated as cash flow hedges	47 568	164 913	- 117 345
Total	47 568	194 913	- 147 345
(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

To hedge foreign exchange rate losses arising from the strengthening of the Czech crown in 2008, 2009 and 2010, the Company used 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 2010	Balance at 31 Dec 2009	
Net book value of fixed assets	-633 637	-459 895	
of which the impact of components	-103 736	0	
Provision against fixed assets	6 564	6 204	
Contractual fines and penalty	- 2 567	-182	
Receivables	5 702	7 158	
Reserves	55 849	7 915	
Tax loss	118 213		
Derivatives	27 996	135 466	
Total	-421 879	-303 334	

ANALYSIS OF MOVEMENTS		(CZK '000)
1 Jan 2010		303 334
Current changes charged against the profit and loss account		11 075
Total charges against the profit and loss account		11 075
Current changes recognised in equity		107 470
Total recognised in equity		107 470
31 Dec 2010		421 879

ANALYSIS OF MOVEMENTS		(CZK '000)
1 Dec 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 December 2009		303 334

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 87,499 thousand and CZK 86,470 thousand as of 31 December 2010 and 31 December 2009, respectively.

The balances of due payables arising from public health insurance contributions were CZK 37,733 thousand and CZK 37,404 thousand as of 31 December 2010 and 31 December 2009, respectively.

The Company records no tax arrears to local taxation authorities.

Details of Income by Principal Activity

YEAR ENDED 31 DECEMBER 2010				(CZK '000)
	In-country	Cross-border	Total	
Sales of freight transportation	6 902 912	5 133 756	12 036 668	
Other sales of freight transportation	978 134	937 972	1 916 106	
Sales of other services	0	168 143	168 143	
Total	7 881 046	6 239 871	14 120 917	

YEAR ENDED 31 DECEMBER 2009				(CZK '000)
	In-country	Cross-border	Total	
Sales of freight transportation	6 479 155	5 114 494	11 593 649	
Other sales of freight transportation	769 935	728 126	1 498 061	
Sales of other services	0	180 033	180 033	
Total	7 249 090	6 022 653	13 271 743	

The classification to cross-border and in-country sales was made reflecting production. 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 DECEMBER 2010							(CZK '000)
Entity	Relation to the Company	Material	Services	Other income	Fin. income	Total	
ČD – Telematika, a.s.	Fellow subsidiary	0	127	0	0	127	
Traťová strojní společnost, a.s.	Fellow subsidiary	0	2 505	0	0	2 505	
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	1 211	0	0	1 211	
DPOV, a.s.	Fellow subsidiary	97	26 872	111	0	27 080	
ČD a.s.	Parent company	1 349	28 256	5 559	0	35 164	
Other		0	0	0	0	0	
Total		1 446	58 971	5 670	0	66 087	

YEAR ENDED 31 DECEMBER 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.

Purchases from Related Parties

YEAR ENDED 31 DECEMBER 2010					(CZK '000)
Entity	Relation to the Company	Material	Services	Other expenses	Total
ČD – Telematika, a.s.	Fellow subsidiary	3 800	126 881	0	130 681
Traťová strojní společnost, a.s.	Fellow subsidiary	0	471	0	471
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	0	0	0
DPOV , a.s.	Fellow subsidiary	1 004	62 144	0	63 148
ČD, a.s.	Parent company	758 127	1 431 067	10 020	2 199 214
Other		70	41 488	0	41 558
Total		763 001	1 662 051	10 020	2 435 072

1. 1. 2009 - 31. 12. 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.

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

Sales

In the year ended 31 December 2010, the Company sold tangible fixed assets to České dráhy, a.s. in the amount of CZK 20 thousand and to ČD-Telematika, a.s. in the amount of CZK 10,605 thousand.

Purchases

YEAR ENDED 31 DECEMBER 2010					(CZK '000)
Entity	Relation to the Company	Intangible FA	Tangible FA	Total	
ČD, a.s.	Parent company	0	9 040	9 040	
ČD – Telematika, a.s.	Fellow subsidiary	29 700	1 747	31 447	
Traťová strojní společnost, a.s.	Fellow subsidiary	0	0	0	
DPOV, a.s.	Fellow subsidiary	0	101 097	101 097	
Total		29 700	111 884	141 584	

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	

Consumed Purchases

			(CZK '000)
	Year ended 31 Dec 2010	Year ended 31 Dec 2009	
Consumed material	438 971	394 035	
Consumed energy	1 344 216	1 189 293	
Consumed fuels	672 428	566 915	
Total consumed purchases	2 455 615	2 150 243	

Consumed energy in the year ended 31 December 2010 includes consumed traction energy purchased from České dráhy, a.s. in the amount of CZK 1,229,619 thousand.

Consumed energy in the year ended 31 December 2009 includes consumed traction energy purchased from SŽDC, s.o. in the amount of CZK 1,079,513 thousand.

Services

			(CZK '000)
	Year ended 31 Dec 2010	Year ended 31 Dec 2009	
Repairs and maintenance	399 770	822 679	
Travel expenses	43 762	46 456	
Representation costs	3 087	3 544	
Telecommunication, data and postal services	141 317	89 766	
Other rental	140 438	74 410	
Use of the railway route, operations control	2 555 241	2 560 443	
Lease for wagons	839 570	617 957	
Lease for motor vehicles	3 148	5 028	
Transportation fee	445 041	195 598	
Costs of general representation	61 898	68 458	
Lease	668 522	445 036	
Border services	173 715	147 321	
Promotion, advertising	199 401	186 473	
Healthcare	36 197	32 601	
Other services	323 860	252 351	
Total	6 034 967	5 548 120	

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 2010	Year ended 31 Dec 2009
Depreciation of intangible and tangible fixed assets	736 800	702 224
Amortisation of a positive valuation difference on acquired assets	374 094	374 094
Total depreciation	1 110 894	1 076 318

Other Operating Income

	(CZK '000)	
	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Claims for damages	80 048	31 979
Subsidies – accompanying social programme	59 000	89 300
Gain of material	6 144	5 960
Sundry operating income	131 057	56 256
Total	276 249	183 495

Claims for damages also include the income from compensation for increased costs incurred as a result of traffic closures caused by SŽDC, s.o. This income arising from the compensation for increased costs incurred due to closures of traffic amounted to CZK 41,032 thousand and CZK 36,314 thousand in the years ended 31 December 2010 and 2009, respectively. The total income arising from the compensation for increased costs incurred due to closures of traffic amounted to CZK 127,032 thousand from 1 December 2007 to 31 December 2010.

Other Operating Expenses

	(CZK '000)	
	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Uniforms and lump sum payments to employees	5 927	7 376
Insurance payments	54 225	57 915
Compensation of damage	13 981	35 110
Membership fees	14 214	1 113
Sundry operating expenses	75 037	29 012
Total	163 384	130 526

Income from Non-Current Financial Assets

	(CZK '000)	
	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Profit shares	4 886	10 250
Total	4 886	10 250

Interest Income

	(CZK '000)	
	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Interest on current bank accounts	330	5 031
Other interest received from other debtors	2 887	62
Total	3 217	5 093

Other Financial Income

	(CZK '000)	
	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Foreign exchange rate gains	162 146	157 166
Sundry financial income	0	3
Total	162 146	157 169

Other Financial Expenses

	(CZK '000)	
	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Foreign exchange rate losses	202 623	145 664
Sundry financial expenses	3 637	2 977
Total	206 260	148 641

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 2010:

	(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	9 535	3 105 373	1 059 755	232 597	0	71 070	102 552	4 571 347
Managers	38	94 014	22 449	11 562	6 839	169	196	135 229
Total	9 573	3 199 387	1 082 204	244 159	6 839	71 239	102 748	4 706 577

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

*/ 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. principally 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 with effect from 1 December 2007. The information disclosed below is linked to Note 4.2.3.

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 (ČR), s.r.o., with gradual supply according to the schedule until 30 June 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., 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) 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).

Lease payments remain unchanged over the lease period unless the 12M PRIBOR rate changes always as of the end of the reporting period, however, for the first time as of 31 December 2011 by more than 1% as compared to 12M PRIBOR applicable for the first period.

On 24 November 2010, ČD Cargo, a.s. concluded a contract for the sale with a subsequent finance lease-back with ČSOB Leasing in the aggregate amount of 7 electric alternating-current locomotives with the selling price of CZK 210,450 thousand (net of VAT). The initial lump sum prepayment of CZK 40,450 thousand (net of VAT) was offset in full against the receivable of ČD Cargo, a.s. for the selling price of locomotives in 2010. The lease period was determined to be 10 years (120 even payments of CZK 1,931.8 thousand net of VAT). Each individual leased asset referred to above is paid on the basis of a standalone payment schedule.

On 15 June 2010, ČD Cargo, a.s. concluded a contract for the lease of 50 Zacns tank wagons with Finrail, s.r.o. with the selling price of CZK 140,000 thousand (net of VAT). The lease period was determined to be 10 years (120 even payments of CZK 1,665 thousand net of VAT). Lease payments remain unchanged over the lease period unless the 12M PRIBOR rate changes always as of the end of the reporting period, however, for the first time as of 31 December 2011 by more than 1% as compared to 12M PRIBOR applicable for the first period.

Bank Guarantees

Bank guarantees as of 31 December 2010 issued by ČSOB from the liability limit of CZK 50 million.

Bank guarantee in favour of	Type of guarantee	Amount	Currency	Until	
WestInvest Waterfront Towers s.r.o.	Lease guarantee	207,000	EUR	25 Feb 2011	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.
WestInvest Waterfront Towers s.r.o.	Lease guarantee	3,780	EUR	25 Feb 2011	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.
HYPARKOS, s.r.o.	Lease guarantee	16,517,056	CZK	8 July 2011	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.
WestInvest Waterfront Towers s.r.o.	Lease guarantee	577.40	EUR	27 Jan 2011	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.

On 19 January 2011, the Company entered into a Framework Contract for the Provision of Financial Services, reg. number 7161080HP0000, with Komerční banka, a.s., with its registered office at Na Příkopě 33/969, Prague 1, 114 07. Pursuant to this contract, the bank guarantees referred to above in favour of WestInvest Waterfront Towers s.r.o. are newly issued by Komerční banka, a.s. The aggregate amount of the approved liability limit is CZK 50 million.

Post balance sheet events

No significant events occurred between the balance sheet date and the financial statements date.

15 | SIGNIFICANT SUBSEQUENT EVENTS

No significant events occurred after the Company's financial statements date.

16 | 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 2010 to 31 December 2010 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. Controlled and Controlling Entity

- 1) Controlled Entity:
- Entity:

ČD Cargo, a.s.
- Having its registered office in:

Praha 7, Holešovice,
Jankovcova 1569/2c, PSČ 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 – until 16 June 2010
Rodan Šenekl, Member of the Board of Directors – until 16 June 2010
Bogdan Heczko, Member of the Board of Directors – until 16 June 2010
Petr Žaluda, Member of the Board of Directors – from 16 June to 25 August 2010
Václav Andrýsek, Member of the Board of Directors – until 16 June 2010
Jiří Vodička, Chairman of the Board of Directors – from 25 August 2010
Milan Matzenauer, Member of the Board of Directors – from 16 June 2010
Jiří Špička, Member of the Board of Directors – from 8 September 2010
Petr Bazger, Member of the Board of Directors – from 25 June 2010
(hereinafter the “Controlled Entity”)

- 2) Controlling Entity:
- Entity:

České dráhy, a.s.,
- Having its registered office in:

Praha 1, Nábřeží L. Svobody 1222,
PSČ 110 15
- Corporate ID:

709 94 226
- Recorded at the Commercial Court held at the Municipal Court in Prague, Section B, File 8039

Petr Žaluda, Chairman of the Board of Directors
Milan Matzenauer, Member of the Board of Directors
Jiří Kolář, Member of the Board of Directors from 12 May 2010
Michal Nebeský, Member of the Board of Directors
Antonín Blažek, Member of the Board of Directors
(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 in Dejvice, Václavkova 169/1, Prague 6, 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 strojní 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 – solely until 18 August 2010
 - 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 in Prague 1, Revoluční 767/25, 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 in Prague 8, Ke Štvanici 656/3, 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 2010 to 31 December 2010.

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 entity:

Number of contracts concluded during the reporting period					
Name of the partner company	Contract for work	Purchase	Rental	Other	Total
Centrum Holešovice, a.s.	0	0	0	0	0
České dráhy a.s.	1	2	17	70	90
ČD – Telematika, a.s.	13	0	1	33	47
ČD Reality, a.s.	0	0	0	0	0
ČD travel, s.r.o.	0	1	0	1	2
Dopravní vzdělávací institut, a.s.	0	0	0	8	8
DPOV, a.s.	21	0	0	4	25
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.	0	0	0	4	4
Výzkumný Ústav Železniční, a.s.	1	0	0	2	3
Žižkov Station Development, a.s.	0	0	0	0	0
Total	36	3	18	122	179

During the reporting period individual sales generated and costs incurred with individual related entities were as follows:

Name of the partner company	Sales generated by ČD Cargo, a.s. (in CZK thousand)	Purchases made by ČD Cargo, a.s. (in CZK thousand)
Centrum Holešovice, a.s.	0	0
České dráhy a.s.	35 184	2 208 254
ČD – Telematika, a.s.	10 732	162 128
ČD Reality, a.s.	0	0
ČD travel, s.r.o.	0	18 638
Dopravní vzdělávací institut, a.s.	0	22 920
DPOV, a.s.	27 080	164 245
RailReal a.s.	0	0
RAILREKLAM, spol. s r.o.	0	0
Smíchov Station Development, a.s.	0	0
Traťová strojní společnost, a.s.	2 505	471
Výzkumný Ústav Železniční, a.s.	1 211	0
Žižkov Station Development, a.s.	0	0
Total	76 712	2 576 656

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 2010 to 31 December 2010:

- 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 2010;
- In the reporting period from 1 January 2010 to 31 December 2010, 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 2010 to 31 December 2010, 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 2010 to 31 December 2010, 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.
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 VIII.
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.

17 | 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.

18 | LIST OF ABBREVIATIONS

AEO	Authorised Economic Operator	JOS	Organisational structure unit
BOZP	Work safety and health protection	KV	Rail vehicles
CIM	(Uniform Rules concerning the Contract of International Carriage of Goods by Rail (Appendix B to COTIF)	lokkm	Locomotive kilometres
		OKV	Rail vehicle repair service
CÚ	Customs Authority	OPT	Traffic receipts clearing
CER	Community of European Railway and Infrastructure Companies	OPŘ	Sales and operational directorate
		OSŽ	Railway Workers Union
COTIF	Convention Concerning International Carriage by Rail	OSŽD	Organisation for Railway Cooperation
ČD	České dráhy, a.s.	PBIST	NATO Planning Board for Inland Surface Transport
ČDC	ČD Cargo, a.s.	PJ	Operational unit
ČIŽP	Czech Environmental Inspection	PP	Operational workplace
ČOV	Waste water treatment plant	QMS	Quality management system
DKV	Rail vehicle depot	RDST	radio station
DPOV	Vehicle repair workshops	SMGS	Agreement on International Goods Transport by Rail
Eas	or Falls, Faccs, Zaes, Zacns - business series of freight wagons	SNS	Commonwealth of Independent States
EMS	Environmental management system	SOKV	Rail vehicle repair service centres
GŘ	General directorate	SŽDC	Railway Infrastructure Administration, state-owned enterprise (Správa železniční dopravní cesty, státní organizace)
HV	traction vehicles		International Union of Railways
hrtkm	gross tonne-kilometre	UIC	
HZS	fire brigade	ŽKV	railway vehicles
IFRS	International Financial Reporting Standards	ŽP	environment
ISR	European central system for the monitoring of movements of freight wagons and consignments	žkv	railway vehicles
		žst.	Railway station

19 | IDENTIFICATION AND CONTACT DETAILS

Business name:	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.:	Section B, File 12844
Telephone:	+420 9722 42 100
Fax:	+420 9722 42 101
E-mail:	press@cdcargo.cz
Http:	www.cdcargo.cz

Customer Infoline:

Telephone:	+420 9722 42 255
Fax:	+420 9722 42 103
E-mail:	info@cdcargo.cz