Annual Report 2012

Cargo

Member of the ČD Group

Member of the ČD Group

The strategic goal of the joint stock company ČD Cargo is to keep its leading position on the railway freight transport market in the Czech Republic and the Central European region as well as to be an effective, customer oriented company.

Cargo
Member of the ČD Group

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01 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 focus 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 Czech transportation policy with respect to 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.

02 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., specialising 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 the railway transport of goods and comprehensive related services. The goal of the Company is to improve its leading position and to be the driving force in the freight transport market in the Czech Republic and the Central European region.

The principal business activity – railway transportation of goods – is structured into two principal segments:

- Transportation of complete trains; and
- Transportation of individual wagon loads.

The above segments are structured by the type of transportation as follows:

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

03 Basic Economic Indicators

Indicator	2012	2011	2010	2009	2008 *)	Index 12/11
Structure of assets and liabilities (CZK million)						
Total assets	14 932	15 664	15 652	15 672	15 987	0.95
Fixed assets	12 253	12 957	13 045	12 424	12 282	0.95
Equity	6 049	8 009	7 967	8 230	8 282	0.76
Structure of profit/loss (CZK million)						
Operating profit or loss	-1 408	314	-125	8	593	-4.49
Profit or loss before tax	-2 047	11	-418	-378	474	-186.28
Structure of revenues (CZK million)						
Total revenues	15 405	15 042	14 984	15 003	17 800	1.02
Sales of own products and services	13 928	14 404	14 121	13 272	17 109	0.97
Financial indicators						
Turnover of assets (total revenues/total assets)	1.03	0.96	0.96	0.96	1.11	1.07
Indebtedness (liabilities/total assets)	0.59	0.49	0.49	0.47	0.48	1.22
Liquidity (current financial assets/current liabilities)	0.05	0.03	0.07	0.05	0.05	1.67
Employees						
Average headcount recalculated to FTE (number of employees)	8 910	9 207	9 573	10 378	11 394	0.97
Total revenue per employee (CZK/employee)	1 728 954	1 633 736	1 565 198	1 445 675	1 562 209	1.06
Added value per employee (CZK/employee)	612 600	678 452	598 224	542 148	561 505	0.90

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

04
Major Events in 2012

January

- On 1 January, the prices for the use of the railway route were significantly adjusted; primarily due to the increase in certain rates on regional routes.
- On 16 January, ČD Cargo started to transport waste soil from Staré Město u Uherského Hradiště to Mydlovary in Innofreight containers.
- Approval of the proposal of a new operational model under the "Trade Transformation" project.

February

- Start of the installation of radio equipment intended for the communication in the GSM-R system in line with the EIRENE European standard (TSI management and security) to ČD Cargo locomotives. Under this engagement, equipment worth almost CZK 90 million was installed into 197 selected vehicles. It was completed in June 2012.

March

- Transportation of new units of 675 series manufactured by Škoda Vagonka in Ostrava to Ukraine.
- Since March 2012, trains carrying overseas coal from the Świnoujście port through Petrovice u Karviné to Haniska při Košiciach for US Steel have been operated regularly. The Střela project is implemented as a cooperative project by ZSSK Cargo, ČD Cargo, Koleje Czeskie and STK, with one locomotive on the entire track.

April

- On 17 April, humanitarian material was transported from Ostrava to Broumov in cooperation with ČD Cargo as part of the humanitarian collection organised by Charita Ostrava and Diakonie Broumov.

May

- The operator of the combined transportation, Metrans, launched newly-developed progressive 80' four-axle container vehicles into operation. These vehicles are currently integrated into ČD Cargo trains.

June

- ČD Cargo, a.s. transported the equipment of the Czech football team to Wroclaw in Poland for the European Championship.
- On 7 June, the transportation of the distillery device from Pacov to Kokand in Uzbekistan was started with the participation of Pacovské strojírny, Talmax Engineering and the subsidiary ČD Cargo in Bratislava.
- On 21 June, a tactical training programme for the NÁKLAD 2012 integrated rescue system units was held in the Vodňany railway station in cooperation with ČD Cargo, a.s.

August

- On 1 August, the transportation of bottled Korunní water was started from Obrnice to Olomouc in the Cargo Plus system.
- In the first week of August, the route for the transportation of coal from Karviná to Linz ironworks was definitively changed from the Horní Dvořiště border crossing to the Břeclav border crossing.
- On 8 August, ČD Cargo, a.s. transported a huge transformer of 216 tonnes from Croatia to Hluboká nad Vltavou.
- On 15 August, the transportation of construction rubble and soil after the clean-up of an area in Prague – Polygon Kolbenova in Innofreight containers was started.
- Between 13 and 18 August, the non-traditional track panels were transported from Beroun and Zdice to Ostružná and Jindřichov in Moravia.
- On 28 August, operations of the Mattoni express were officially started – a train transporting Mattoni mineral waters from Kyselka to Prostějov in cooperation with Autodoprava Hanzalík.
- At the end of August and the beginning of September, the number of trains with truck semitrailers between Rostock and Brno was increased.

September

- ČD Cargo, a.s. received a special prize from the Ministry of Environment in the "Clear Road" competition for the project entitled "Supply of Plzeňská teplárenská with wood wafer through collection from individual suppliers in the Innofreight containers system".

- On 27 September, the "Corridor E: ERTMS railway equipment in the Czech Republic" project was initiated, ie the construction of the European security ETCS equipment on the SŽDC network.
- On 30 September, the "Analysis and detailed design of the customer centre" project was completed.

October

- On 1 October, the operation of the Morava line train was started in cooperation with DB Schneker Rail Polska transporter.
- Start of the restructuring programme of ČD Cargo with the objective of optimising the system of transporting individual vehicles without any limitations to the scope of offered services

November

- On 1 November – implementation of the deliverables from the "Trade Transformation" project into the organisational structure and organisational order of ČD Cargo.
- On 1 November, the Czech customs authority confirmed the extension of the AEO certificate to ČD Cargo. ČD Cargo was the third railway entity in Europe to obtain the AEO certificate.
- On 9 November, a train from Wuhan in China, transporting components for electronics manufacturing in containers, arrived at the intermodal transportation terminal in Mělník.

December

- At the end of November and the beginning of December, the transportation of gypsum from the power plant in Počerady to the repository in Mydlovary, was tested using Innofreight technology.
- On 1 December, the regular transportation of paper from MONDI Štětí to the ČD Cargo warehouse in Lovosice started.

CHAIRMAN OF THE BOARD OF DIRECTORS

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Opening Statement of the Chairman of the Board of Directors

Dear Business Partners, Shareholders, Ladies and Gentlemen,

The year 2012 was undoubtedly one of the most difficult periods in the history of ČD Cargo, a.s., which was a clear indication that there is a need for significant restructuring if the Company is to continue its operations on the Czech transportation market and in Europe.

We saw a year full of hard work in which it was necessary to start internal restructuring and optimisation, which is now bringing forth its first positive effects. The Company initiated a number of partial projects that resulted in cost savings and the implementation of trade measures in relation to our customers with the objective of building mutually-beneficial relations and strategic partnerships. ČD Cargo, a.s. is one of the key transporters in freight railway transportation in the European region and has the ambition to be a leader in the Central European region and a stable partner for its customers thanks to all adopted measures in 2012 and a feasible business plan for 2013, implemented restructuring and optimisation and search for new opportunities for growth.

We entered 2013, in which all our partners expect us to successfully start the economic growth of the Company and enter new markets in the medium-term horizon line, present new products and increase the satisfaction of our customers.

It is more than evident that the growth of ČD Cargo, a.s. cannot be started only on the transportation market in the Czech Republic, but that it is important to leave behind "traditional solutions" and focus on the maximum fulfilling of customer needs to find new and smart solutions, and implement them rapidly and effectively.

When you read through this annual report, you will find the summary of economic results, indicators and all other information that can be found in every annual report, but you will also find other information that documents the fact that ČD Cargo, a.s. is entering a new period with feasible ambitions.

I firmly believe that ČD Cargo, a.s. is and will continue to be a reliable partner that provides the highest quality of services to its customers not only in short-term relations, but also long-term strategic partnerships that will be mutually-beneficial for the existing and new customers.

Sincerely

Petr Žaluda
Chairman of the Board of Directors

Ing. Petr Žaluda

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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, ie the Company's supreme body. The Company's statutory body is the Board of Directors, which comprises three members; the Company's oversight body is the Supervisory Board, which has five 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. The Company established a three-member Audit Committee, its members were appointed by the sole shareholder.

Board of Directors

1. Petr Žaluda
Chairman of the Board of Directors (member since 2 October 2012, Chairman since 9 October 2012), age: 46
Petr Žaluda graduated from the Brno University of Technology; he completed study programmes at Utrecht University and Sheffield Business School. He worked at Stork Demtec as a Country Manager. From 1993 to 1996, he acted as a Branch Office Manager at 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. 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. In October 2012, he was appointed the Chairman of the Board of Directors of ČD Cargo, a.s.

2. Petr May
Member of the Board of Directors (since 25 September 2012); age: 49
He graduated from the University of Economics in Prague. He spent one year in a fellowship in tax and accounting advisory with a focus on European tax and accounting systems in Nuremberg, Germany. During his career, he held positions on Boards of Directors and management positions in economic sections in a number of reputable companies, such as Benckiser, Triton Bohemia and Grey Worldwide. Since 2010, he has worked for ČD Cargo, a.s. Since 25 September 2012, he has been a member of the Board of Directors of ČD Cargo, a.s. and concurrently the CFO.

3. Vlastimil Chobot
Member of the Board of Directors (since 29 October 2012); age: 61
Vlastimil Chobot has been a railway professional for a long time. He graduated from the University of Transportation in Žilina, where he also completed his postgraduate studies. His entire career has been focused on railway issues, he moved from the dispatcher and train-dispatcher to the function of station master. He gained managerial experience in NH-TRANS, where he worked as sales director and a member of the Board of Directors in the long term. He then worked in identical positions in Ostravská dopravní společnost, a.s. Vlastimil Chobot speaks seven languages. Since 9 October 2012, he has been a member of the Board of Directors and Sales Director of ČD Cargo, a.s.

Changes in the Composition of the Board of Directors
On 24 April 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, decided to decrease the number of members of the Board of Directors from four to three members, recalled Jan Vlasák and Sonny Sonnberger as members of the Board of Directors and appointed Roman Vallovič a member of the Board of Directors with effect from 24 April 2012.

At its meeting held on 5 September 2012, the Board of Directors discussed the written announcement on the resignation of the member, Jiří Špička. His position of the member of the Board of Directors expired on 5 September 2012.

On 25 September 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Petr May as a member of the Board of Directors with effect from 25 September 2012.

On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Roman Vallovič as a member of the Board of Directors and appointed Petr Žaluda a member of the Board of Directors with effect from 2 October 2012.

Gustav Slamečka resigned from the position of a member of the Board of Directors by making a written announcement to the Board of Directors dated 8 October 2012. At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors discussed and acknowledged this announcement in its Resolution no. 1365/2012 and concurrently approved 8 October 2012 as the expiration date of his position.


Petr Žaluda
Chairman of the Board of Directors


Petr May
Member of the Board of Directors


Vlastimil Chobot
Member of the Board of Directors

BOARD OF DIRECTORS

BOARD OF DIRECTORS

1. Petr Žaluda
2. Petr May
3. Vlastimil Chobot


1.

2.

3.

SUPERVISORY BOARD

1. Zdeněk Prosek
2. Miroslav Zámečník
3. Milan Špaček
4. Radek Nekola
5. Jindřich Nohal


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ADMINISTRATION BOARD

1. Vít Veselý
2. Jaroslav Novák
3. Michal Zděnek


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AUDIT COMMITTEE

1. Oldřich Vojíř
2. Libor Joukl
3. Miroslav Zámečník


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At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors appointed Petr Žaluda as Chairman of the Board of Directors with effect from 9 October 2012 pursuant to Resolution No. 1366/2012.

On 9 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Vlastimil Chobot a member of the Board of Directors with effect from 9 October 2012.

Supervisory Board

1. Zdeněk Prosek
Member of the Supervisory Board (since 23 August 2011), age: 62
Zdeněk Prosek is an independent consultant focusing on economic and organisational advisory.

2. Miroslav Zámečník
Member of the Supervisory Board (since 22 June 2010), age: 50
Miroslav Zámečník is an independent economic consultant focusing on the restructuring of companies. He is a member of the National Economic Council of the Czech Government. In addition, he is the Chairman of the Audit Committee of České dráhy, a.s.

3. Milan Špaček
Member of the Supervisory Board (from 1 December 2007 to 30 November 2008 and since 1 December 2008), age 60
Milan Špaček is the Director of the Children's Centre in Znojmo.

4. 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: 48
Radek Nekola is an employee of ČD Cargo, a.s.; he is empowered in the long term to act as the Chairman of the ČD Cargo Committee of the Railway Workers' Union. Radek Nekola is also the Deputy Chairman of the Railway Workers Union (OSŽ).

5. Jindřich Nohal
Member of the Supervisory Board (since 1 December 2008, elected by the Company's employees), age: 59
ČD Cargo, a.s., dispatch manager – head of the ČD Cargo, a.s. shift and Chairman of the basic organisation of the Railway Workers Union (OSŽ).

Changes in the Composition of the Supervisory Board
On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Petr Žaluda as a member of the Supervisory Board.

Administration Board

1. Vít Veselý
Chairman of the Administration Board (member since 13 December 2011, Chairman since 14 February 2012), age: 33
Vít Veselý is a lawyer. In his practice, he focuses on administrative, business and civil law, primarily real estate and construction law, public tenders and intellectual property law.

2. Jaroslav Novák
Member of the Administration Board (since 24 July 2012), age: 58
Czech Ministry of Transport, Deputy Director for Railways, Railways and Combined Transportation and Head of the Combined Transportation Department.

3. Michal Zděnek
Member of the Administration Board (since 24 July 2012), age: 33
Economist, he works at the Norwegian School of Economics, and teaches at CERGE-EI in Prague. Concurrently, he is the head of the Ivy Street advisory firm, which specialises in the use of advanced mathematical methods.

Changes in the Composition of the Administration Board
On 24 July 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled – pursuant to the proposal made by the Czech Ministry of Transport – Jiří Franc and Jakub Kopřiva as members of the Administration Board and appointed Jaroslav Novák and Michal Zděnek members of the Administration Board.

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Audit Committee

1. Oldřich Vojíř
Chairman of the Audit Committee (member since 15 December 2009, Chairman since 18 February 2010), age: 51
Chairman of the Board of Directors and Director of ENIMA PRO, a.s. based in Prague and with branches in Most and Ostrava. The company specialises in construction engineering, ground and transportation constructions and electro-technical activities, including the installation of security technology on railways.

2. Libor Joukl
Member of the Audit Committee (since 15 December 2009), age: 46
Entrepreneur, statutory executive and director of APOLY s.r.o., Přibyslav. Member of the Regional Council of Vysočina, Deputy Governor of the Vysočina Region for transportation and property, member of the Vysočina Regional Council Board, member of the Administration Board of the Správa železniční státní dopravní cesty state organisation.

3. Miroslav Zámečník
Member of the Audit Committee (since 15 December 2009), age: 50
Independent economic consultant specialised in the restructuring of companies. He is a member of the National Economic Council of the Czech Government. In addition, he is the Chairman of the Audit Committee of České dráhy, a.s.

ANNUAL REPORT 2012 OF ČD CARGO, A.S.

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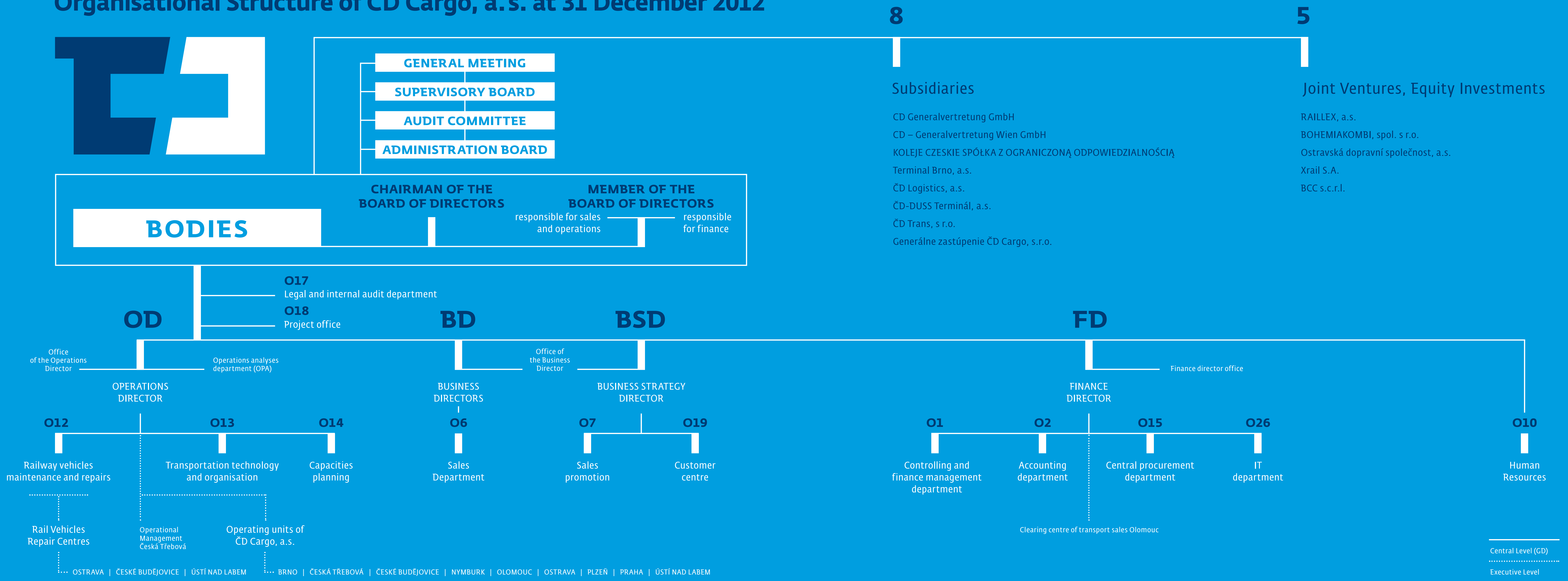
Organisational Structure of ČD Cargo, a. s. at 31 December 2012



ANNUAL REPORT 2012 OF ČD CARGO, A.S.

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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.

In 2012, the Company implemented a number of successful projects the results of which already have or will have a positive impact on the Company's overall economic results. In operational issues, the Company implemented projects focused on the improvement of the freight effectiveness and decrease in operating costs of transportations where important savings of operating costs were achieved without negative impacts on sales or size of the serviced area. One of the significant implemented projects is a change in the system of periodical repairs of wagons from time-type to service-type, which will bring significant savings of operating costs. In sales, the Company implemented changes that resulted in an increase in the overall trade capacity with the objective of maintaining and strengthening sales to customers of the Company. In finance controlling, the Company implemented measures with the objective of specifying the allocation of costs to individual products and introducing product planning principles.

Freight Transport Operations

FREIGHT TRANSPORTATION

In 2012, ČD Cargo, a.s., trains transported 73.28 million tonnes of goods. The share of ČD Cargo, a.s. on the Czech railway market ranged around 80% and this position as a "national" transporter weakened in 2012. Sales from the transportation of the goods amounted to CZK 12.083 billion, which is approximately 2.8% less than in 2011. The total sales and revenues of the Company amounted to CZK 15.4 billion in 2012.

As compared to 2011, the Company transported approximately 5.5 million tonnes less; the most significant decline was recorded in intrastate transport (of almost 3 million tonnes) and exports (of approximately 1.5 million tonnes).The principal reasons for the decline in transported volumes can be divided into two categories – decline due to the stagnation of the economy and decline in transport as a result of competition.

The commodity that most impacts the results of ČD Cargo, a.s. is solid fuels. The Company transported 10% less brown coal than in 2011; however, this decline was already reflected in the preparation of the business plan for 2012. Eventually, the Company exceeded the plan by almost 100 thousand tonnes in spite of all adverse circumstances such as a mild winter at the beginning of the year, technical problems in power plant sidings or long shut-down of the Mělník III power plant together with its slow bringing back to operations. The volume of transports was additionally impacted by disputes between the Czech Coal a.s. mining company and Elektrárny Opatovice, a.s. which culminated in the temporary interruption of transports in June. Throughout the year, the Company actively participated in the transport of fuel from alternative localities – Germany and Poland, where it performed well among the competing transporters. In respect of black coal, the Střela project continued – the import of approximately 500 thousand tonnes of black coal from Poland through the Czech Republic for the customer U.S Steel Košice, s.r.o. in Slovakia. In Poland, the coal is transported by Koleje Czeskie Sp. Z o.o. However, the overall transports of black coal and coke decreased, particularly at the end of the year. This situation resulted from the problems in mining, and predominantly the decline in sales. The amount of transportation sales, but not the volumes, was negatively impacted by the re-routing of the coal transported from the Ostrava region to Linz from the Horní Dvořiště border crossing to the Břeclav border crossing as required by the customer. Although the Company gained some new transportation routes to Romania and Slovakia, the transport of coke further declined by approximately 35% year-on-year as metallurgical firms were not interested in purchasing coke. ČD Cargo a.s. also provided transports of alternative fuels, primarily wood chips. As part of the project awarded by the Ministry of Transport, the Company transported more than 30 thousand tonnes to the Plzeň heating plant and the number of stations from which the wood chips were transported in Innofreight containers to Plzeň increased. In addition, the Company transported other bio-fuels.

The results regarding iron reflect the situation in the European metallurgical and engineering industry. The decline in the transport of iron ore was due to both the decline in the demand and the transport of ores from Bosnia to the Ostrava region and Poland taken over by the transporter PKP Cargo S.A. The reduced production in Italian steelworks led to significant declines in transports of iron scrap primarily at the end of 2012. However, the Company gained transports of iron scrap to steelworks in Strážský, which was a new 80 thousand tonnes of goods for 2012. Exports of products from EVRAZ VÍTKOVICE STEEL, a.s. primarily to Germany decreased. This fact adversely impacted the scope of purchased services under which the Company provided comprehensive services in foreign countries for EVRAZ VÍTKOVICE STEEL, a.s.

The volume of transports of building materials was negatively impacted by the loss of transports of desulphurising limestone from Lomy Mořina spol. s.r.o. to power plants in the north of the Czech Republic after 1 July 2012. It was also the decline in construction production that led to declines in transported volumes of cement and sands. The Company managed to eliminate these losses, at least partially, by gaining new, however, only spot transports of clinker to Poland, gravel to Austria, etc. Positive news for the Company is the completely-new transport to be carried out in Innofreight containers, be it soil from Staré Město u Uherského Hradiště to Dívčice, construction debris from Prague to Most (Polygon Kolbenova) or testing transports of ash from Počerady at the end of the year.

Wood and paper products are a commodity with a high share of individual shipments and groups of vehicles (86%). In 2012, this commodity saw complicated development. An unclear situation in announcing tenders for wood logging, together with its high price, led to a steep decline in transports at the beginning of the year. However, transports started to increase in June and the Company recorded 10 thousand tonnes more transport at the end of the year as compared to 2011. Even the insolvency of one of the largest customers in this commodity, LESS & FOREST s.r.o., did not have such an impact as expected, because sales managers managed to agree on transports with other customers. At the end of the year, the Company started transports from MONDI Štětí, a.s. to the ČD Cargo warehouse in Lovosice. In total, it was 6 thousand tonnes of new goods per month. A decline of almost 15% in transports of chemical products is a logical outcome of two factors: reduction of production and primarily the consumption of diesel and petrol in the Czech Republic (eg discontinued production in Pardubice) as a result of a high excise tax imposed on fuels; the second factor relates to the first one as the declining volume of transports forces the production companies to better use their own capacities (Unipetrol Doprava, s.r.o.) and other transporters push the prices down to the minimum. For this reason, the share of complete trains transporting chemical products is only 32%.

In the food and agricultural products sector, the figures of 2011 were exceeded by almost 100 thousand tonnes of goods. It is proof that the Company is able to compete with other transporters when it reduces costs and uses tailor-made technologies. This commodity includes the newly-started transports of Mattoni and Korunní mineral water. Despite these new transports, the Company did not manage to meet the plan. The transportation of sugar beet from Hrušovany nad Jevišovkou was taken over by road transporters due to their better price conditions. The price was also the reason why the Company did not manage to attract transit transports from Romania, Hungary and Slovakia to Germany from Austrian railways to Czech railways. Transports in the "other" commodity were at a stable level and the Company transported large numbers of railway vehicles and extraordinary shipments in 2012. The considerably-reduced army budget resulted in an important decline in army transports. We can positively assess the increase in postal transports for Česká pošta, s.p. for which the Company provides a rapid night connection of the postal hub in Prague with the Ostrava region.

A significant year-on-year increase was recorded in respect of automotive products (+150 thousand tonnes) and combined transportation (+170 thousand tonnes). In automotive products, the Company cooperates with all carmakers and operators of companies that own special vehicles for the transportation of cars. Except for the Kolín carmaker, the loading of cars from Czech manufacturers was stable, and the Company increased transit transports from Slovakia to Germany (Volkswagen, Porsche). In cooperation with the infrastructure administrator, Správa železniční dopravní cesty, the Company eliminated the risk of losing transit transport as a result of the unsatisfactory condition of certain railroad sections.

The growth in the combined transportation has been a tradition. For all operators, ČD Cargo, a.s. is a reliable partner as the transports of containers and semi-trailers require precision and quality. It was the transportation of semi-trailers that recorded a significant growth in 2012 when the number of trains from Rostock to Brno was increased to four pairs a week. The Company won the tender announced by A.P.Möller – Maersk operator. The Company additionally recorded an increase in the transport of disassembled ŠKODA cars in containers to Russia. The Company got involved in the logistics chain of the BMW carmaker, specifically in the transport of disassembled cars in containers from Germany to China. Significant events include the arrival of the container train with components for electronics production from China to Mělník at the end of 2012.

In cooperation with DB Schenker Rail Polska S.A., the Company introduced the Moravia line train, which is an alternative for the transport of individual shipments from/to Poland through the Bohumín border crossing. The Cargo Plus products were developed for traditional transport of sweets and recently also for Korunní mineral water. In 2012, the use of the surface of the Company's warehouse in Lovosice was significantly increased by the temporary storage of polypropylene and the storage of bodies for the production of railway vehicles and the start of the transport, storage and other services for Mondi Štětí a.s. in December. Centres of logistics services recorded doubled West-East transports, primarily in Lovosice and Ostrava, where the Company operates reloading junctions between trucks and wagons in transit to the Balkans.

OPERATIONAL MANAGEMENT

As on 1 February 2012, the Česká Třebová Operational Management organisational structure unit was formed through a spin-off from the General Directorate of ČD Cargo. The principal tasks of a new organisational structure unit include the organisation, in cooperation with other authorised sections and organisational structure units, of operations of ČD Cargo, a.s. trains. In extraordinary events, it is entitled to exercise the entrusted decision-making authorities, in accordance with the business interests of the Company, on priorities in freight transportation. Another task is to ensure the effective management of wagons according to the requirements of customers.

In 2012, more than 50% of complete trains of ČD Cargo were dispatched differently from the flow chart, which in practice meant that most of these trains were dispatched by the employees of Operational Management as needed. These included on an average, 33 trains in the ad hoc regime daily, ie the regime where no routes or train requirements are specified for these transports. The principal benefit of the Operational Management is the flexible provision of transports as required by customers, including the furnishing of empty wagons to loading spots. In 2012, the trend from prior years showing that customers prefer this (flexible) manner of satisfying their needs was confirmed. The employees of the Operational Management organisational structure unit carried out a number of other tasks in 2012. One of them was the preparation for a difficult transition to a new DISC OŘ information system, which should fully replace the currently-used ISOŘ ŘVD system in 2013. The benefits of the new system include the fact that it is owned by ČD Cargo, a.s. and it more-closely corresponds to the needs of the operating management of wagons and includes more functions that will allow a more-effective management of operations. In connection with the organisational changes in ČD Cargo, a.s., preparations were started for the planned completion of the DAC centralisation (relocation of the DAC Ústí nad Labem to Česká Třebová).

The management of operations of wagons is organised in a network-wide manner in dispatcher stratification by individual principal series of wagons. The tool for the optimum allocation of wagons by the requirements of the customers of the information system (IS) of the central wagon, an arrangement of which optimises the management of available wagons with the objective of the maximum coverage of the demand with minimum costs. The principal activity of the wagons arrangement group is the full number and effective coverage of the requirements of customers with wagons. Given the deployment of key customers, the structure of orders for the delivery of wagons and last but not least the structure of the rolling stock, these are activities that have to be extremely flexible. In 2012, a total of 709,749 wagons of all series, ie 99% of all ordered wagons, were delivered to customers. Another task is to ensure supervision over the correct data prepared by operational employees and their correct transfer among information systems. This task was carried out by the data administration group. In addition, this group works as a HelpDesk for IS ÚDIV, partially for PRIS and provides on-line advisory activities for operational employees.

OPERATIONAL SAFETY

In 2012, 314 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 154 EEs were in the Company's responsibility.

The aggregate detriment arising from all the EEs amounted to CZK 75,342,096, of which the damage caused by the Company amounted to CZK 62,410,800. The Company suffered property detriment worth CZK 21,218,070. During the EEs, a total of 23 people were killed, of which one employee of the Company was killed during his work, the Company identified that he breached the rules of work safety. Other persons were killed during their presence in restricted areas of the railway track and in collisions at crossings. 24 persons were injured, of which 5 employees of ČD Cargo (in 4 cases caused by ČD Cargo – fault of a specific employee). A total of 12 traction vehicles and 75 wagons owned by the Company derailed.

The results of the investigations into the 2012 EEs are as follows:

- It can be stated that the number of EEs slightly decreased. As compared to 2011, the number declined by 8%.
- As compared to 2011, the total amount of damage caused significantly decreased, by 29%. Similarly, the damage to assets of ČD Cargo, a.s. declined by 32%. On the other hand, the damage caused by ČD Cargo, a.s. increased year-on-year by 57%, which was primarily due to the occurrence of one serious accident with damage amounting to CZK 48,208,917.

- None of the railway crossings collisions were the Company's fault; and
- None of the EEs were caused by a system failure.

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 were investigated for the Company by the railway operator, Správa železniční dopravní cesty, a state organisation, for a relevant fee.

During 2012, one serious accident occurred during the operation of railway transportation (one derailment during the train journey). ČD Cargo, a.s. was responsible for this accident. The cause of the accident was a technical failure of the axle bearing of a railway vehicle consisting in the rupture of the internal ring of the front antifriction bearing, which was caused by fatigue processes. This EE caused damage of CZK 48,208,917. Pursuant to the conclusions of the investigation, ČD Cargo, a.s. undertook relevant preventive measures in the maintenance and repairs section to prevent the occurrence of similar EEs.

Information on the Balance of the Company's Assets

THE COMPANY'S REAL ESTATE

In addition to the usual elementary production means, such as rail vehicles, the Company also owns real estate. A total of 224 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 investment plan of the Company.

ROLLING STOCK, MANAGEMENT OF VEHICLES

In 2012, ČD Cargo, a.s. the Company administered 955 traction vehicles and 27 thousand wagons that were complemented by an average of 1,400 leased vehicles. The Company covered the runs and sales needs during the year. During the year, 108 traction vehicles were put out of operation and mothballed due to the reduction of operating reserves; some of them are waiting for physical liquidation. More than four thousand wagons are earmarked for physical liquidation due to redundancy and technical obsolescence.

Wagons

Planned repairs were carried out primarily in the Company's own repair centres and partially using external capacities under terminating contracts. The repair percentage in the category of common repairs was significantly reduced by repair plants of České dráhy, a.s. In terms of damage to vehicles, primarily in the category of damage to vehicles during loading/unloading, the Company continued the trend of an increased clarification rate in 2012, which positively impacted the settlement of costs incurred in returning the vehicles to operation.

Technical improvements to vehicles included the renovation of floors in 200 Eas series vehicles when the original wooden floor was replaced by a more-appropriate metal floor. In the Eas series vehicles group, the Company completed the testing of a new type of brake lining, "LL" non-metal blocks (made of special mixture, without the use of metal elements, primarily alloy). The objective of the project is to test new materials that are more environmentally friendly and less noisy for the surroundings of the railroad.

In regulations and preparations of standards, the Company implemented a project focusing on the change in the time planning of repairs to system based on services throughout 2012. The maintenance and repairs section was audited in 2012 and complied with the conditions for obtaining the certificate for entities responsible for the maintenance of wagons under Commission Regulation (EU) No. 445/2011.

Traction vehicles

The development in the need for traction vehicles was similar to the development in wagons. The maintenance and repairs of locomotives was largely provided by repair centres. Additional maintenance capacities were provided by Depo kolejových vozidel Českých drah, a.s., and DPOV, a.s., Přerov.

During 2012, the works on the modernisation of locomotives from 163 series to 363.5 series continued, almost all supplied locomotives were tested in autumn 2012 for the purposes of the issuance of a certificate for operations on the railway network of Slovakia and Hungary. Another significant project was the installation of vehicle radio stations of the GSM-R system partially financed from the European funds from the Transportation Operational Programme.

LEASE OF RAIL VEHICLES

One of the Company's significant business activities also includes the lease of rail vehicles, ie freight wagons and locomotives. In respect of locomotives, these are primarily long-term leases to our partners. In respect of the lease of wagons, we provide our customers with both long-term and short-term or repeated leases of vehicles for spot and one-off transactions. For these purposes, the Company has sufficient vehicle capacity available and offers the leasing of all wagon series, including cisterns. Information on the rolling stock can be found in the on-line catalogue of wagons at http://vozy.cdcargo.cz.

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. For 2012, the Company set the priorities of business activities for the following period and thus set the objectives of individual marketing campaigns and activities. The promotion of the Company focused on the existing and potential customers and the public in order to strengthen the awareness of the Company. The principal means of these objectives included a marketing campaign, support for cultural and sports projects or participation in international professional trade fairs and conferences.

WEB PRESENTATION

A significant means of communication of ČD Cargo, a.s. included the website www.cdcargo.cz intended for both business partners and customers and the public and media. During the year, the web pages were updated and new links were added. Concurrently, the Company worked on the preparation of the EROZA project (electronic customer interface) involving the creation of a single web and data interface between ČD Cargo, a.s. and customer systems.

PRINT AND MEDIA COMMUNICATION WITH CUSTOMERS

In 2012, ČD Cargo, a.s., published the quarterly CARGO Motion, which was published in a dual Czech-English version and provided information about the world of railway freight transport and the related services. It was predominantly intended for senior managers of cooperating companies, for state administration representatives, and for selected secondary schools and universities focused on transportation. The intracompany Cargovák newspaper was available in 2012 to employees both in a printed and electronic form. This monthly is intended exclusively for the Company's employees and includes the latest information on the Company's development.

In 2012, the Company also published a number of printed materials focusing on the promotion of individual products of ČD Cargo, a.s. in various language versions.

TRADE FAIRS AND CONFERENCES

In 2012, the Company took part in the most significant European transportation and logistics trade fair – TransRussia Moscow, and held its own presentation at the Czech trade fair of railway technology – Czech Raildays Ostrava. The individual and design exposition of the Company attracted the deserved attention and was one of the best assessed at the trade fair. Other significant conferences in which the Company participated included the EASTLOG, international logistics conference SpeedChain 2011 or the EU and USA Days international economic conference. Significant conferences include the Conference of ČD Cargo, a.s. organised in Špindlerův Mlýn in the autumn, which is intended for all business partners of ČD Cargo, a.s. and focuses on business and price policy of the Company.

RESEARCH, DEVELOPMENT AND COOPERATION WITH UNIVERSITIES

During 2012, the Company continued its cooperation with certain Czech universities, predominantly technical and economic universities (the University of Economics in Prague, the Jan Perner Transportation Faculty in Pardubice, the Faculty of Transportation at the Czech Technical University, etc). The core of this cooperation includes consultations with and supervision for students during the preparation of their annual, bachelor's and master's diploma works.

The topics of the diploma works 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.

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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.

INFORMATICS

2012 saw the continued development of a new operational and business information system and the completion of other already-initiated projects leading to the fully-fledged use of the information technology potential for the management of the Company.

Operational and Business System (PROBIS)

The new operational and business information system is developed with financial support from EU funds, specifically the Transport Operational Programme. Its principal objective is to meet the defined rules, structured into functional fields, determined by technical specifications for the interoperability of sub-systems of telematics applications in the railway freight transportation TSI-TAF. As such, the PROBIS concept responds to the current requirements arising from the European legislation.

The main competitive edge of the new system will be the comprehensive character of the solution. The intention is to create a single operational and business system with interconnected components in terms of logics and data. The Company seeks to consolidate the currently-fragmented portfolio of applications and systems into one system that will allow a more-effective management of sources necessary for the implementation of ČD Cargo products.

The project programme is divided into a set of 14 partial projects that are to supply individual applications, components and modules of the target information system.

Principal system components will be completed at the beginning of 2013.

Safety Policy and Infrastructure

In 2012, the rules for safety and security of computers and infrastructure were reviewed. The Company defined policies for the renewal of passwords, backups and connection of the e-learning portal and Exchange Post System to the Identity Management system and consequently ensured the automation of the lifecycle of user accounts in both systems.

In 2010, the Company started the process of the renewal of its computers, ie desktops, laptops and LCD panels, including the necessary peripherals. End-use facilities are renewed in regular cycles of 3 and 5 years (3 years for laptops; 5 years for desktops and LCDs). At the end of 2012, the first stage of the renewal was completed and, except for selected and justified cases, all employees of ČD Cargo, a.s. work with adequate modern technology that is also currently unified and meets a single technical standard. In 2013, the renewal will continue with the second stage focused on the equipment within the 3-year renewal cycle.

In the comprehensive support of printing services, the Company started the selection of a partner at the ČD Group level.

Economic Systems and Systems for the Internal Operations of the Company

In 2012, all development activities in economic systems focused on the SAP system. The Company completed the modifications of the system of monitoring receivables and payables in time, automatic calculation of provisions against receivables and developed a solution for bilateral and multilateral settlement of receivables and payables with foreign railway companies.

In addition, the Company launched pilot operations of the system for the electronic approval of received invoices, including their archiving.

In internal operations of the Company, the activities focused on the further development of supporting applications in the ČD Cargo internal portal environment. The principal computerised activities include the approvals of vacation requests and intrastate business trips. A number of thematic document storage places were created at the portal, the functionality and design was adjusted to the content and purpose of corporate data sharing.

International Activities

In 2012, the Company continued to develop its international IT activities, which relate 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. 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 the data in

all of these applications is gradually increasing, which is also due to the newly-operational search and analysis tool.

From the perspective of EU legislation, information technologies of transporters are currently impacted primarily by the above-mentioned TSI TAF technical specifications. TSI TAF deal with 14 telematic issues that define the technical specifications for IT systems. In accordance with these issues, the Company is currently building a new operational and business information system. As part of TSI TAF, the Company is an active member of a group of large transportation companies (cluster of railway companies).

INVESTMENTS

In 2012, the Company realised investments in the amount of almost CZK 2.57 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 93.65% of the acquired fixed assets in 2012 (including the component accounting).

Investments in Freight Vehicles

In 2012, the Company acquired no freight vehicles. As of the end of December, the Company has only made improvements to railway freight vehicles, including the modernisation and insulation of Zaes cistern vehicles. In addition, the Company is making individual investments in improvements to Eas 52.Sk vehicles (exchange of the wooden floor for a metal floor).

Investments in Traction Vehicles

In the area of traction vehicles with electric drives, the Company made improvements to its traction vehicles, specifically the modification of its 130 series traction vehicles for operations in Poland and the installation of GSM-R radio stations in traction vehicles. In 2012, the Company continued work on 163 series locomotives by modernising to 363.5 series two-system locomotives; 23 modernised locomotives were supplied. The remaining seven modernised 363.5 series locomotives will be supplied in 2013. Investment activities in locomotives include technical improvements to the locomotives of different types and with different drives (use of gel batteries, modifications made during higher-level manufacture repairs, modification of the locomotive driver's post, changes to the 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 2012, 5 investments in machinery and 34 investments in construction were realised. A significant part of the investments initiated in 2012 will be completed in 2013.

Other Investments

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

The principal IT investments included the first stage of the implementation of PROBIS (operational and business information system) with an annual volume of CZK 42.95 million and modifications of the SAP information system of CZK 9 million.

Selected Operational Units and Rail Vehicle Repair Centres exchanged the obsolete handling equipment in 2012. These primarily included the purchase of a new mobile crane for the České Budějovice Operational Unit in the amount of CZK 5.27 million and forklifts for selected organisational structure units.

The originally-proposed plan of investments in work safety and health protection for 2012 was adjusted pursuant to the requirement of labour union headquarters dated 31 January 2012 and amended to include other investments with anticipated costs of CZK 4.2 million as part of the granted limit of CZK 7 million. Pursuant to the preparation of the project documentation, some of them are implemented in 2013. The most significant investments in work safety and health protection in 2012 included the renovation of floors in the Assembly Plant in the Rail Vehicle Repair Service Centre in České Budějovice of CZK 1.31 million and modification of inspection bridges and installation of hanging cable systems at Rail Vehicle Repair Service Centres in Ostrava.

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 and major and general repairs in 2012.

STAFF POLICY AND SOCIAL PROGRAMME

In 2012, the Company continued to implement measures to improve its financial situation and increase work effectiveness. HR work appropriately focused on the optimisation of the professional structure and a socially-acceptable reduction in the number of employees while maintaining the employment rate necessary for the effective operation of the Company.

The Company continued the contractual cooperation with selected high schools in the training of their graduates – our future employees – focused on the decrease in the age of the employee base. The contracts with schools include theoretical and practical preparation, cooperation within the research and development programmes, use of the latest scientific and technological findings and their implementation in our operations, participation in the creation of study programmes, etc. For the last time, successful students at contractual high schools had the opportunity to receive a contribution for studies, which is conditioned by an obligation to join ČD Cargo, a.s. after their studies are completed. For the 2011/2012 school year, a total of 5 students were selected, together with five students from prior years, who will be able to start working at the Company either in 2013 or gradually in the following years after they successfully pass their final exams.

In line with the applicable legislation and in cooperation with trade unions, occupational safety and health, improved working and social conditions for employees by way of company healthcare and rehabilitation stays.

From January to December 2012, the average registered headcount recalculated to full-time employees decreased by 322 employees, ie from 9,032 (January 2012) to 8,710 employees (December 2012). The physical headcount as of 31 December 2012 was 8,703.

In relation to meeting the objectives of the business plan, it was necessary to optimise activities in the Company in direct connection with the optimal number of employees providing only those activities that are necessary in respect of operations of the Company and those that have to be provided as they result from the applicable legal regulations, contracts, agreements, or membership in bodies and institutions. This intention has to be followed by a trend where the necessary savings are linked to savings in the staff costs of the Company.

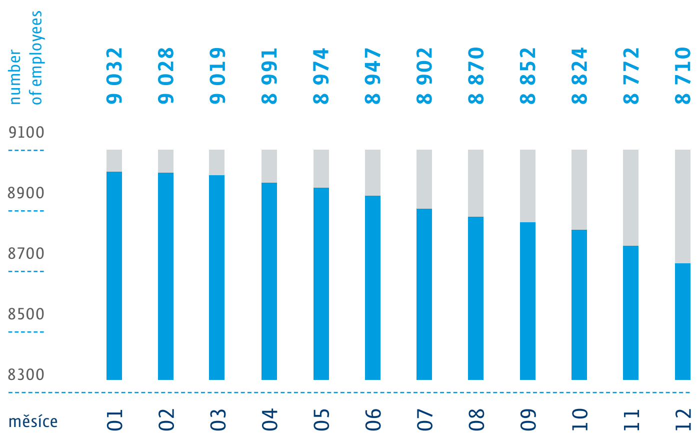
In 2012, the average salary in ČD Cargo, a.s., ie the payroll costs, excluding other staff costs, amounted to CZK 28,205.

In line with the applicable legislation, the social fund of ČD Cargo, a.s. was predominantly used for the employees of ČD Cargo, a.s. in 2012 to:

- Make contributions for cultural and sports activities;
- Make contributions for holidays and summer camps for children; and
- Provide social assistance, etc.

Nine trade unions operate within ČD Cargo, a.s., including multi-professional unions as well as unions solely representing specific professional groups of employees. The Company's collective agreement, which 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 2012 until the end of 2012. The collective agreement for 2013 was signed on 13 December 2012.

Chart: Average headcount recalculated to FTE in individual months of 2012



01 | JANUARY 9 032 · 02 | FEBRUARY 9 028 · 03 | MARCH 9 019 · 04 | APRIL 8 991
05 | MAY 8 974 · 06 | JUNE 8 947 · 07 | JULY 8 902 · 08 | AUGUST 8 870
09 | SEPTEMBER 8 852 · 10 | OCTOBER 8 824 · 11 | NOVEMBER 8 772 · 12 | DECEMBER 8 710

CODE OF ETHICS

In 2012, the employees of ČD Cargo, a.s. perceived the Code of Ethics as a moral commitment defining the moral attitudes, behaviour and activities of all employees towards the Company, colleagues, customers, business partners and the public. Principal values that every employee of the Company respects, thus creating a base for the building and maintaining of the trust of the public, including team work, responsibility, quality and professional attitude. ČD Cargo, a.s. promotes an open style focused on customers and business and respecting the values of people that help to create it. The management of ČD Cargo, a.s. contributes to the application of these principles and to the effective performance of activities of ČD Cargo, a.s. through the creation of an adequate work environment and maintaining an equal approach to employees with a focus on the assessment of work. The Code of Ethics is amended and developed by the Work Rules of ČD Cargo, a.s.

QUALITY MANAGEMENT – ISO

The principal issue in ISO management systems in 2012 was obtaining the certificate under OHSAS 18001. This is a certification of all processes and activities relating to health and safety protection at work. The external audit of OHSAS 18001 was conducted in October and November 2012. This was a two-level audit – the deliverable of the first phase was a basic review of the safety and health at work management system and information provided to the certification company about local conditions, the deliverable of the second phase was a recommendation to grant the OHSAS 18001 certificate. The certificate is provided by SGS Czech Republic, s.r.o., this entity will audit other ISO management systems starting from 2013. During the audit of SM BOZP (OHSAS), no critical findings were identified. Minor findings included approximately 20 recommendations and comments for the improvement of the system. The subject of this audit type was, for example, the organisation of employee healthcare, the allocation and use of work protection devices, risk prevention, the prevention of accidents, records, the reporting and analysis of work-related accidents, projects and reviews of health and safety protection at work as well as a number of other activities that are an integral part of the health and safety protection management system.

In April and May 2012, supervisory audits of the quality management system (QMS – ISO 9001) and environmental management system (EMS – ISO 14001) were conducted. Similarly as in the audit under OHSAS, the results of these audits included only partial recommendations and comments. The objective of all of the preceding quality, environment and health and safety at work audits, both external and internal, is the confirmation that the system of ISO management systems:

- Complies with the requirements of international standards;
- Is developed in order for ČD Cargo, a.s. to achieve its objectives; and
- Complies with the legislation, applicable regulations and contractual requirements.

Teams of auditors conduct a process-focused audit focusing on significant aspects, risks and objectives required by the above standards (norms). Starting from 2013, internal and external audits will be announced always as combined (integrated), ie these audits focusing on quality, environment and safety and health at work will be conducted jointly at the units of the organisational structure and reporting workplaces of ČD Cargo, a.s. In the maintenance and repairs of railway vehicles, these audits are conducted together with the audits or certifications of other types – audits of welding, defectoscopy. Between April and June 2013, a recertification external audit of ISO 9001 and ISO 14001 will be conducted. In respect of the audit of OHSAS 18001, this will be the first review (supervisory) audit.

For quality and work safety systems, the following issues are subject to certification:

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

For the environmental system of management, the certification includes:

- Maintenance and repairs of rail vehicles and parts

Certified organisational structure units in the QMS (ISO 9001) system include almost all sections of the central level of the Company: Clearing centre of transport sales in Olomouc, Česká Třebová Operations Management, all Operational Units (including subordinate Operational Plants) and Rail Vehicle Repair Centres (including subordinate Repair Plants of Railway Vehicles). The EMS system includes only the maintenance and repair of rail vehicles division O12 GŘ Čd Cargo, a.s. and all Rail Vehicle Repair Centres (including Rail Vehicles Repair Plants).

The work safety and health protection management system (HSMS – OHSAS 18001) includes all Company organisational structure units – the reason is primarily the fact that work safety pertains to every employee.

Since November 2012, the activities that form an integral part or otherwise relate to management, environment and work safety systems have been provided by a newly-formed ISO management systems department. Other professional units at the ČD Cargo, a.s. central level are technology, technics and environmental departments for environmental issues, and the work safety and health protection department for work safety and health protection issues. The most important task is an annual extension of all granted certificates and cooperation with trade unions in trade at the central level of ČD Cargo, a.s. in tenders where relevant certificates are presented or specific facts relating to management systems are documented. At the top level, the Operations Manager is in charge of the management and inspection of quality (environment). The Human Resources Manager is in charge of work safety and health protection management.

AEO CERTIFICATE

Pursuant to the resolution of the Customs Directorate in České Budějovice, as the local and relevant administrative body of the Czech customs administration, ČD Cargo, a.s. was granted with the highest level of the AEO quality customs certificate "Simplified Customs Procedures/Safety and Security" on 24 September 2009.

At that time, ČD Cargo, a.s. led the group of railway transporters that was only the third railway entity in Europe to obtain the newly-established quality certificate.

In 2012, the compliance with the conditions of the certificate was further verified. The several months of effort of the AEO work team led to a positive result and the extension was confirmed by the Czech customs administration on 1 November 2012.

The Company and the Community

INTERNATIONAL ACTIVITIES AND RELATIONSHIPS

The international activities of the Company include the issues of the membership of ČD Cargo in international organisations and the coordination of international projects. Since its formation, the Company's involvement in the activities of international organisations has been based on the conditions set out in the contract for international cooperation concluded between the Company and ČD, a.s. With its parent company, the Company jointly promotes the principle of a uniform concept, ie uniform membership of the ČD Group, coordination and information sharing. Under this contract, České dráhy, a.s., is a guarantor of its membership in the International Union of Railways (UIC), the Community of European Railways (CER), the Organisation for Railway Cooperation (OSŽD), Forum Train Europe (FTE), and the International Rail Transport Committee (CIT). In organisations that have a direct relationship to freight transportation, such as the International Association of Tariff Specialists (IVT), the European Pallet Pool (EPP), Interunit and the International Organisation for Combined Transport (UIRR), the transfer of the membership to the Company is either planned or has already been completed. The Company has become a standalone member in the Bureau Central de Clearing (BCC).

The European driver of new IT projects is the liberalisation of EU legislation. This primarily includes the TSI Telematics of Freight Transportation (TAF). As part of the TAF implementation preparation, the Company is involved in the RU Cluster. The Company actively participated in the validation of specifications for the train preparation process. The Company cooperates with ČD, a.s., and SŽDC, s.o., with the objective of coordinating the TAF implementation method. In addition, the Company monitored other principal international IT projects, primarily e RailFreight, for an electronic load list and activities heading to the European database of wagons. E-Rail Freight and TAF – TSI Deployment are among the projects of the International Union of Railways (UIC) in which the Company is actively involved.

In 2012, the Company was involved in the activities of the international Xrail Alliance, the objective of which is to support the transport of individual vehicle shipments in territories of member states of this organisation. The Alliance includes seven partners operating in 11 countries: ČD Cargo, a.s., (Czech Republic), CFL cargo (Luxembourg), DB Schenker Rail (Germany, Netherlands, Denmark), Green Cargo (Sweden, Norway), Rail Cargo Austria (Austria, Hungary), SBB Cargo (Switzerland) and SNCB Logistics (Belgium). Through the provided information (tracking of the shipment over its route, determining the anticipated time of arrival at the railway station, and efforts in its 90% guarantee), the Xrail system contributed to the increased satisfaction of customers and, due to the weekly assessment of delays in selected routes, an increase in the operational quality and reliability of transportation. In 2012, the Company further extended the system and the Company increased the number of monitored routes by 200%. Another area of focus of the Xrail alliance is the place reservation of transport capacity in freight trains where Xrail has the objective of creating a "central part" that would mediate cooperation between the reservation systems of the partners. The new system will be fully connected and launched in 2015.

ECOLOGY AND ENVIRONMENTAL PROTECTION

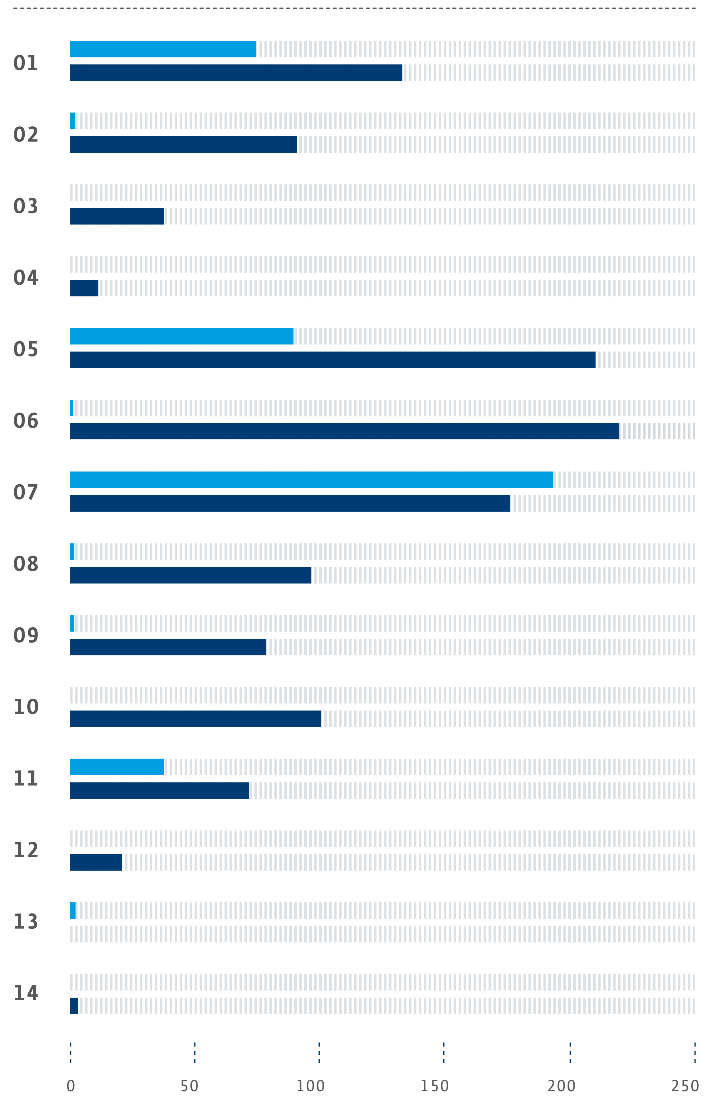
The ČD Group, which includes the Company, is responsible for environmental protection and it actively protects the environment. ČD Cargo, a.s., and ČD, a.s., cooperate on the basis of a mandate contract. Ecology is hierarchically managed by the Head Ecologist, who communicates at the local executive level with determined employees of Rail Vehicle Repair Services Centres and Operational Units.

Through the adoption of the Environmental Policy, all employees are bound to comply with the environmental management, whose purpose in the system is to describe, assess and improve the management system in the Maintenance and Repairs of Railway Vehicles and in the Rail Vehicle Repair Services Centres in respect of waste, the negative impacts of activities and technologies (eg in compliance with the principles of pollution prevention, readiness for accidents, purchase of environmentally friendly products, environment, and primarily the efforts to minimise the production of waste (refer to the chart).

Chart: Production of waste by ČD Cargo, a. s., in 2012 by category of waste

NO (t) OO (t)

01 | OKV UNL
02 | OKV MO
03 | OKV Nbk
04 | OKV Cheb
05 | OHV OVA
06 | ONV OVA
07 | OKV Břeclav
08 | OKV Brno
09 | OKV Přerov
10 | OKV Třinec
11 | OKV CBE
12 | OKV Jihlava
13 | PrP Strakonice
14 | PrP Horní Dvořiště



As the EMS system focuses on providing the best conditions for environmental protection, the Company realised investments in 2012 for improving certain environmental activities, e.g. renovation of the warehouse and distribution centre of oils in the round-house of the Rail Vehicle Repair Services Centre in Ústí nad Labem, renovation of the waste water treatment plant at the Rail Vehicle Repair Services Centre in České Budějovice, insulation of the operational locomotive treatment room at the Rail Vehicle Repair Services Centre in České Budějovice, cleaning of the sewer and entry into the sewerage system at the Strakonice operational centre, etc.

During the reporting period, the Company organised regular internal audits focusing on compliance with the determined criteria and obligations set by the effective legislation for environmental protection. The system is introduced in the Company after the successful EMS audit.

In May 2012, an external audit was conducted (by MOODY International) at the Rail Vehicle Repair Plant in Jihlava (Rail Vehicle Repair Centre in České Budějovice), the Rail Vehicle Repair Plant in Přerov and the Rail Vehicle Repair Plant in Brno (Rail Vehicle Repair Centre in Ostrava) and the Company was again granted certification according to ČSN EN ISO 14001:2005. The fact that the maintenance of the introduced EMS system in the Maintenance and Repairs of Railway Vehicles department at the General Directorate of ČD Cargo, a.s. and all Rail Vehicle Repair Centres (including Rail Vehicle Repair Plants) is a good resolution is documented by the fact that no financial sanctions were imposed on ČD Cargo, a.s. in 2012, although there were extraordinary events (accidents of railway vehicles) with an impact on the environment and inspections by state authorities, primarily the Czech Environmental Inspection.

Fire Protection:

- In 2012, ČD Cargo, a.s. continued to be obliged to have its own fire-fighting unit. For this reason, the contract on the common fire-fighting unit with SŽDC, s.o., and ČD, a.s. continues to be active, the contract determines payments for actual actions of the fire-fighting unit of SŽDC, s.o. for ČD Cargo, a.s.
- The number of fires was 14; the total damage was CZK 300 thousand. These fires were caused by technical failures of traction vehicles, in two cases it was smouldering coal on a wagon, in one case the indications of fire on a locomotive without subsequent damage.
- In accordance with the "Organisational Rules" of ČD Cargo, a.s., the Maintenance and Repairs of Railway Vehicles department continues to be the guarantor of the fire prevention. The documentation is updated on a continuous basis and potential inspections, performed by the Czech Fire-fighting Squad, identified no failures.

CORPORATE SOCIAL RESPONSIBILITY

As part of its activities, the Company participates in several corporate social responsibility projects.

Together with the parent company ČD, a.s., ČD Cargo, a.s. participates in the Preventive Train traditional project, which is intended for older kids and young people and which focuses on safety in railway transportation, and the Cinema Train project, which ensures a free-of-charge projections for children in selected railway stations.

The Company supports children from foster homes or foster families, provides help to disabled sportsmen and has decided to promote children's athletics in order to engage children in sports.

Since 1999, Diakonie Broumov and railway entities have cooperated. For Diakonie Broumov civic association, ČD Cargo, a.s. provides the transportation of collected clothes from approximately 190 load points in the Czech Republic to the sorting centre in Broumov for further processing. In 2012, the Company transported almost 600 wagons with 6 thousand tonnes of goods to Broumov. Another form of cooperation is the direct collection of clothes in railway vehicles in selected stations, provided by regional charity organisations. Such events were organised for example in April and September in Ostrava in cooperation with ČD Cargo, a.s., Charita Ostrava and Diakonie Broumov.

The corporate social responsibility involves the granting of a special prize by the Czech Ministry of Environment to the Company in September 2012 in the second year of the "Clear Roads" competition. The prize was granted for the "Supply of Plzeňská teplárenská with wood wafer through collection from individual suppliers in the Innofreight containers system". The prize clearly proved the ability of ČD Cargo, a.s. to use new progressive transportation technologies and contribute to the improvement of the environment in the Czech Republic.

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: operations of a combined transportation terminal in Brno.

On 8 October 2012, the extraordinary general meeting of Terminal Brno, a.s. decided to increase the share capital of the company through the subscription of new shares and payment of their issue rate through cash contributions. The share capital is increased by CZK 16,200,000 to CZK 71,550,000. The reason for the increase in the share capital is obtaining financing for the renovation of the area of the container railway terminal in Brno. The increase in the share capital was recorded in the Register of Companies on 31 January 2013. Following the increase in the share capital, the equity investment of ČD Cargo, a.s. is 66.93% (CZK 47.89 million).

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: shipping.

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 in Lovosice.

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: shipping.

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 and for ČD Cargo, a.s., shipping.

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 on behalf and for ČD Cargo, a.s., shipping.

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: mediation of services in freight transport on behalf and for ČD Cargo, a.s., shipping.

AUTO TERMINAL NYMBURK, S.R.O.
Date of entry in the Register of Companies: 24 October 2012
Share capital: CZK 200,000
Equity interest: 100%
Principal business activities: shipping and technical activities in transportation. The company has been dormant.

ИООО «ЧД ТРАНС» (TRANSCRIPTION IN ROMAN LETTERS: ČD TRANS S.R.O.)
Date of entry in the Register of Companies: Belarus 21 April 2008
Share capital: USD 20,000
Equity interest: 51% (USD 10.2 thousand)
Principal business activities: passenger and freight transportation including the provision of services in the Brest terminal.

The General Meeting held on 30 March 2012 decided to dissolve the company with liquidation as of 1 April 2012. The liquidation was completed and the company was removed from the Register of Companies in Belarus as of 24 September 2012.

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.

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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 68,975.10
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. The extraordinary General Meeting of Xrail S.A. held on 8 March 2012 decided on the increase in the share capital of the company from EUR 61,500 to EUR 68,975.10.

BUREAU CENTRAL DE CLEARING SOCIÉTÉ COOPÉRATIVE Á RESPONSABILITÉ LIMITÉE (BCC S.C.R.L.)
Date of entry in the Register of Companies: Belgium 17 December 1996
Share capital (fixed part): EUR 18,750
Equity interest: 3.3% (EUR 3,750)
Principal business activities: non-cash settlement of mutual payments in railway transport;

ČD Cargo, a.s. has no organisational branches abroad.

09 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 its rolling stock and additional investment activities related to machinery and construction, and other investments that are crucial for carrying out its operations.

The Annual Report of ČD Cargo, a.s. includes three financial statements:

- INDIVIDUAL FINANCIAL STATEMENTS (CAS);
- INDIVIDUAL FINANCIAL STATEMENTS (IFRS); AND
- CONSOLIDATED FINANCIAL STATEMENTS (IFRS).

The information provided in the Annual Report is based on the financial statements prepared according to Czech Accounting Standards (Individual financial statements (CAS)).

Balance Sheet

In the period from 31 December 2011 to 31 December 2012, the value of the Company's total assets and liabilities decreased by CZK 731.8 million. The value of fixed assets decreased by CZK 704.3 million and amounted to CZK 12,252.5 million, ie 82.1% of the total assets. The current assets, which include inventory, receivables and current financial assets, decreased by CZK 92.9 million to CZK 2,267.1 million, ie 15.2% of the total assets. Deferred expenses and accrued income increased by CZK 65.4 million to CZK 412.6 million accounting for 2.8% of the total assets.

The value of the Company's equity in the reporting period decreased by CZK 1,959.8 million to CZK 6,049.2 million, ie 40.5% of its total liabilities. External funding increased by CZK 1,236.8 million to CZK 8,831.1 million in the reporting period, which represents 59.1% of the total liabilities. Accrued expenses and deferred income decreased by CZK 8.9 million to CZK 51.8 million and represent 0.4% of the total liabilities.

INVESTMENT ACTIVITIES OF ČD CARGO, A.S. (CZK MIL.)	2012	2011	2010	2009	2008
Acquisition of freight cars	10	0	0	0	0
Renovation and modernisation of freight cars	241	214	584	1 262	1 518
Acquisition of traction vehicles	0	0	0	1	0
Renovation and modernisation of traction vehicles	1 448**)	63	390	502	685
Machinery investments *)	100	23	11	19	37
Construction investments	108	53	104	92	111
Other investments *)	109	72	109	165	177
Component accounting of inspection repairs of railway vehicles	558	748	507	-	-
Total investments	**2 574**	**1 173**	**1 705**	**2 041**	**2 528**
Prepayments for investments provided (as of 31 December)***)	105	239	239	77	7

**) investments of CZK 58 million were made from investment subsidies*

***) including the modernisation of traction vehicles from series 163 to series 363.5 –19 traction vehicles already supplied*

****)Prepayments made for tangible fixed assets as of 31 December 2012 relate to the ongoing modernisation of traction vehicles from series 163 to series 363.5*

Profit and Loss Account

The Company's loss before tax for 2012 in the amount of CZK -2,046.7 million was achieved with an aggregate income of CZK 15,405.0 million and the total costs (excluding income tax) of CZK 17,451.7 million, including accounting amortisation and depreciation charges of CZK 2,579.9 million. The value of EBITDA (earnings before interest, taxes, depreciation and amortisation) amounted to CZK 633.3 million.

Funding of 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, supplier loans, leases and bonds.

OPERATING BANK LOANS

In financing operating activities, the Company has overdraft and revolving loans of up to CZK 1.8 billion provided by five banks. The increased competition between banks allowed the Company to obtain lower interest rates.

BILL OF EXCHANGE PROGRAMME

The bill-of-exchange programme was approved in the amount of CZK 1.5 billion and the Company's Supervisory Board must be informed about any intention to draw more than CZK 1 billion in advance. The bill-of-exchange programme was not drawn as of 31 December 2012; however, the bill-of-exchange facility is kept as a reserve for short-term financing independent of bank sources.

BONDS

This funding source significantly increases the financial stability of the Company's cash flow due to its long-term nature. The bond issue was realised in connection with the introduction of the strategy for the gradual replacement of short-term funding sources with long-term ones. The bond programme is approved in the total amount of CZK 6 billion and the issue is not public. At the beginning of 2012, the Company issued new bonds of CZK 500 million. The total issued bonds as of 31 December 2012 amounted to CZK 2.5 billion.

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 business and operating risks.

In 2012, the Company further developed the integrated risk management system, which is based on the best practice and set framework of Corporate Governance rules. The activities of organisational units in the Company are governed by the ČD Group Manual for risk management, which determines specific procedures for the identification, analysis, measurement, strategy of management and processes of dealing with, monitoring, reporting and communication of risks. The risk management system in ČD Cargo, a.s. was discussed by České dráhy, a.s.'s Risk Management Committee.

The standardisation of procedures was significantly supported by the introduction of SW support for risk management, "eRisk" in the entire ČD Group. The introduced single method of risk management created preconditions for further development and increase in the quality of the monitoring, assessing and reporting of all significant risks.

The principal objective of the implemented system for active risk management is to achieve the maximum reduction of the negative impact on the results of the Company and the ČD Group on an ongoing basis, ie minimise the impacts of unused opportunities for generating income and reduce negative impacts of costs. As part of the active risk management, the Company introduced the ongoing monitoring and assessment of the compliance with approved risk limits and the overall risk appetite of the Company in 2012.

BUSINESS, OPERATIONAL, COMPLIANCE AND STRATEGIC RISKS

The deliverables from the risk monitoring systems are discussed on a regular basis by the Risk Management Committee, delivered to the Board of Directors of the Company and subsequently to the Audit Committee. Similarly, the assessment of the risk position is delivered to the parent company and discussed by the Risk Management Committee of České dráhy, a.s. The development and impacts of all risks are described in the Summary Report on Risk Management that was discussed by the Board of Directors and the Audit Committee.

INSURANCE OF 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 the liability for damage by the owners of wagons.

FINANCIAL RISKS

The goals and methods of the Company's risk management are based on the Financial Risk Management Strategy in ČD Cargo, a.s. This document was approved by the Company's Board of Directors in 2011 and contains the goals for individual risks and permitted derivative operations used to hedge against the risks. The Company's goal is to hedge so that an open position is not higher than the approved risk appetite as stipulated in the Financial Risk Management Strategy.

PRICE RISK

In relation to the development on the transportation market, ČD Cargo, a.s. faced considerable pressure on the reduction of prices in 2012. The growing competition from other railway transporters significantly influenced the price and business policy primarily in the segment of complete trains. This trend was apparent in transports of bulk cargo to non-centrally positioned (in geographical terms) Moravian – Silesian ironworks and in transit throughout the Czech Republic. The price policy in the transport of individual shipments focused on the maximum increase in the effectiveness of these activities.

Business negotiations were conducted with the objective of stabilising transportation volumes and sales in the form of multi-year contracts. Another instrument used to eliminate business risks was the offer of comprehensive services, including the transportation of goods abroad, among other things by certain subsidiaries of ČD Cargo, a.s.

The purchase of railway vehicles, their renovation and modernisation, including potential funding from external sources, are usually above-limit public orders in the conditions of ČD Cargo and they are subject to tenders in compliance with the applicable Act on Public Contracts.

The Company proceeds similarly in the inspection repairs of wagons and repairs of higher-grade locomotives. The consistent application of the Act on Public Contracts leads to the optimisation of prices in the acquisition, renovation, modernisation or repair of railway vehicles, and in the acquisition of external funding to cover the investments in railway vehicles. For the modernisation and repair of railway vehicles, the Company regularly uses worn out, but repairable components (eg wheel sets, under-frames) from vehicles intended for liquidation. This results in savings in repair costs and the prices of railway vehicle modernisation.

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 the use of overdraft loan facilities or the bill-of-exchange programme, on bond issuance, etc.

CREDIT RISK

The Company has in place a system to continuously monitor receivables by individual company and default periods with a special focus on receivables past due by more than 60 days. The development of past due receivables is dealt with by the Receivables Committee.

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 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.

The goal of currency risk management is to hedge so that an open position is not higher than the Company's approved risk appetite. To achieve the required status, the methods and tools to manage currency risk arising from the Financial Risk Management Strategy are approved.

During 2012, the Company mitigated the risk of possible currency strengthening by the continued mid-term hedging of the exchange rate of the Czech crown against the euro. With respect to the expected collections

in the euro for the performance delivered and the internal price calculation, the hedging of the CZK/EUR exchange rate will be agreed continuously by the Company to eliminate the risk of possible strengthening of the crown, ie the risk that the calculated or incurred costs in CZK will not be covered, in line with the Financial Risk Management Strategy as approved by the Company's Board of Directors.

COMMODITY RISK – PRICE OF RAILWAY DIESEL

Railway diesel used by the Company represents a significant cost component. In 2012, the Company used a medium-term hedging of the diesel price, which reduces the Company's commodity risk.

The commodity risk management's goal is to hedge so that an open position is not higher than the Company's approved risk appetite. To achieve the required status, the methods and tools for commodity risk management arising from the Financial Risk Management Strategy are approved.

INTEREST RATE RISK

Changes in floating interest rates may be sources of the interest rate risk. The interest-rate risk management's goal is to hedge so that an open position is not higher than the Company's approved risk appetite. The maximum share of funding using the floating interest rate is specified at 50% of the total volume under the Financial Risk Management Strategy. To achieve the required status, interest-rate risk management methods and tools arising from the Financial Risk Management Strategy are approved.

Through various hedging instruments, fixed values of interest-rate swaps are achieved to eliminate any possible risk of a floating rate increase in compliance with the Financial Risk Management Strategy as approved by the Company's Board of Directors.

In 2011 and 2012, the debt issue was hedged. The hedging was made through an IRS.

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Anticipated Development, Objectives and Intended Activities

A clear objective for ČD Cargo, a.s. for 2013 is to maintain the position primarily on the Czech market of complete train transportation. This is a key segment for the Company and consequently all negotiations will focus on the stabilisation of business relations with the possibility of extending or concluding new multi-year contracts.

This relates to solid fuels, where the Company will have to respond to the decline in coal mining in the Czech Republic through an offer of imports of this fuel or alternative fuels.

Given the permanent growth in combined transports, the long-term activities of ČD Cargo, a.s. focus on this segment. The Company primarily anticipates development in the continental transportation of containers relating, among other things, to the opening of a new intermodal transportation terminal in Česká Třebová, the Company has to be prepared for the anticipated increase in transports from China, Russia and other countries. In addition, other projects are being prepared, for example in an effort to reduce the load on the renovated D1 highway (new lines for the transportation of semi-trailers). The logistics centres network has to allow ČD Cargo, a.s. to get involved in other transports that were previously exclusively transported by road – supply of food chains, transports of consumer goods, etc. This should be supported through a strategic co-operation with road transporters. New activities additionally focus on the increase in the utilisation ratio of the Innofreight system primarily through a change in their settings from ad hoc transports to transports stable in the long-term (transports of waste, bulk cargo, etc).

It is necessary to restructure the system of individual trains in order to maintain the network-wide transport availability in the territory (in clearly-defined load/unload spots) and concurrently increase the work productivity. At the international level, the Company will use benefits arising from its membership in the Xrail alliance to the maximum scope. The Xrail alliance was formed in order to optimise and increase the attractiveness of individual train transport in Europe.

ČD Cargo, a.s. also has significant international ambitions. One of the objectives of the Company is to strengthen its position on the Polish transportation market. In order to offer quality services to its customers, international transports will be increasingly provided with the use of one traction vehicle of ČD Cargo, a.s.

11
Share Capital

The Amount of the Issued Share Capital

As of the balance sheet date of 31 December 2012, the share capital amounts to CZK 8,494,000 thousand, which was paid in full.

Ownership Structure

SOLE SHAREHOLDER:

České dráhy, a.s.
Praha 1, nábřeží L. Svobody 1222, 110 15
Corporate ID: 709 94 226

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

Report of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD OF ČD CARGO, A.S., ON THE PERFORMANCE OF ITS REMIT FOR THE YEAR ENDED 31 DECEMBER 2012 AND THE RESULTS OF THE SUPERVISORY ACTIVITIES

During 2012, the Supervisory Board of ČD Cargo, a.s. held twelve meetings, in which it always had a quorum.

The Company's Supervisory Board 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. 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, regularly participated in all meetings and informed the Supervisory Board continuously of the Company's business activities and results of operations.

The Supervisory Board paid undivided attention to discussing and/or reviewing significant business documents, in particular the Financial Statements of ČD Cargo, a.s., for the period from 1 January 2011 to 31 December 2011 with the Auditor's Opinion and Report by the Audit Committee of ČD Cargo, a.s., on the financial statements and the Auditor's Opinion, the individual financial statements of ČD Cargo a.s. under IFRS as adopted by the EU for the period from 1 January 2011 to 31 December 2011 with the Auditor's Opinion and the Report by the Audit Committee of ČD Cargo, a.s., on the individual financial statements of ČD Cargo, a.s. under IFRS as adopted by the EU for the period from 1 January 2011 to 31 December 2011 with the Auditor's Opinion, the Proposal for the Distribution of ČD Cargo, a.s.'s financial result for the period from 1 January 2011 to 31 December 2011, the Board of Director's Report on the Business Activities of ČD Cargo, a.s., and the Balance of its Assets for the period from 1 January 2011 to 31 December 2011, and the Related Parties Report for the period from 1 January 2011 to 31 December 2011.

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.

The Supervisory Board states that it had all conditions in place to duly exercise its activities. During the performance of its supervisory activities, the Supervisory Board identified no breaches or failures to meet its obligations on the part of ČD Cargo a.s. or its individual members of the Board of Directors as stipulated by the legal regulations, ČD Cargo a.s.'s Articles of Association, the Company's internal guidelines and the sole shareholder's instructions acting in the capacity of the General Meeting or on the General Meeting's own initiative addressed to the Company's Board of Directors.

At its forty-seventh 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 2012 and the Report on Relations between Related Parties for the year ended 31 December 2012 with the Auditor's Report and agrees with the content thereof.

In addition, at its forty-seventh meeting, the Supervisory Board reviewed the following documents: the Financial Statements of ČD Cargo, a.s., for the year ended 31 December 2012, including the Independent Auditor's Report and Report of the Audit Committee of ČD Cargo, a.s., on the financial statements with the Auditor's Opinion, Single Financial Statements and Consolidated Financial Statements of ČD Cargo, a.s. prepared under IFRS as adopted by the EU for the year ended 31 December 2012, and the Proposal to Settle the Economic Results of ČD Cargo, a.s., for the year ended 31 December 2012. The Supervisory Board recommended that the sole shareholder, České dráhy, a.s., acting in the capacity as the General Meeting of ČD Cargo, a.s., approve all of the above-mentioned documents.

In Prague on 22 April 2013

On behalf of the Supervisory Board
Zdeněk Prosek

Report of the Administration Board

REPORT OF THE ADMINISTRATION BOARD OF ČD CARGO, A.S.

The ČD Cargo a.s. Administration Board acted as the Company's advisory and initiative body in the year ended 31 December 2012. 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 Transport of the Czech Republic.

In 2012, the Administration Board of ČD Cargo, a.s., held nine ordinary meetings, in which it provided the Company's bodies with expert statements, opinions, 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 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 Administration Board and provided it with the relevant information and supporting documents.

In Prague on 12 February 2013

Vít Veselý
Chairman of the Administration Board

Report of the Audit Committee

REPORT OF THE AUDIT COMMITTEE OF ČD CARGO, A.S.

The Company's Audit Committee executed its duties and performed all tasks in accordance with legal regulations, the Company's Articles of Association, its rules of procedure and the effective contractual arrangements. It systematically monitored the preparation of the Company's financial statements, the audit and interim audit thereof, and related documents for the periods from 1 January 2011 to 31 December 2011, 1 January 2012 to 30 September 2012 and 1 January 2012 to 31 December 2012.

The Company's Audit Committee was informed by the Company's representatives, duly and on time, of the relevant information and documents related to the individual steps of preparing the Company's financial statements under Czech Accounting Standards and IFRS as adopted by the EU and the Report on Related Party Transactions for the periods from 1 January 2011 to 31 December 2011 and 1 January 2012 to 31 December 2012, and of preparing the Annual Report of ČD Cargo, a.s. for the year ended 31 December 2011.

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 the 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 identify any errors or breaches of the 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 2011 to 31 December 2011 and from 1 January 2012 to 31 January 2012 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 2011. It also recommended that the Company's bodies discuss the single financial statements of ČD Cargo, a.s. under IFRS as adopted by the EU for the year from 1 January 2011 to 31 December 2011 and that the sole shareholder, acting in the capacity as the General Meeting, approve the documents.

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.

With regard to the facts referred to above, the Company's Audit Committee states 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.

In Prague on 3 April 2013

Oldřich Vojíř
Chairman of the Audit Committee

REPORT OF THE AUDIT COMMITTEE OF ČD CARGO, A.S. ON THE SINGLE FINANCIAL STATEMENTS OF ČD CARGO, A.S. PREPARED UNDER IFRS AS ADOPTED BY THE EU FOR THE YEAR FROM 1 JANUARY 2012 TO 31 DECEMBER 2012, INCLUDING THE AUDITOR'S OPINION

The Audit Committee of ČD Cargo, a.s., in line with the relevant provisions of Act 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD Cargo, a.s., as amended, continuously monitored the proceedings taken in the preparation of the Single Financial Statements of ČD Cargo, a.s. under IFRS as adopted by the EU, the procedure of the audit of the financial statements and all related documents for the year from 1 January 2012 to 31 December 2012, from the preparation phase of the whole process.

The Audit Committee was made aware by the representatives of ČD Cargo, a.s., duly and on time, of the relevant information and materials related to individual steps taken in the preparation of the Single Financial Statements of ČD Cargo, a.s. under IFRS as adopted by the EU, for the year from 1 January 2012 to 31 December 2012.

The Audit Committee also assessed the impartiality and independence of the Company's auditor – Deloitte Audit s.r.o., discussed and communicated selected accounting information, and issued statements and communications in accordance with applicable legislation. During the preparation of the Single Financial Statements under IFRS for the year from 1 January 2012 to 31 December 2012, the obligatory audit thereof and the relating activities, the Audit Committee, acting in its capacity, identified no errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor.

With regard to the facts outlined above and in respect of the draft Auditor's Opinion on the Single Financial Statements prepared under IFRS, the Audit Committee recommends that the Single Financial Statements of ČD Cargo, a.s. prepared under IFRS as adopted by the EU for the year from 1 January 2012 to 31 December 2012 and the Auditor's Opinion, be discussed by the bodies of ČD Cargo, a.s. and approved by the sole shareholder acting in the capacity of the General Meeting.

Based on the information disclosed above, the Audit Committee of ČD Cargo, a.s. states that it fulfilled the obligations arising from legal regulations, principally from Act 93/2009 Coll., on Auditors of 26 March 2009, as amended, the Articles of Association of ČD Cargo, a.s., as amended, and that it took into consideration all information it has received related to the Single Financial Statements of ČD Cargo, a.s., under IFRS as adopted by the EU, for the year from 1 January 2012 to 31 December 2012, and the Auditor's Opinion.

Oldřich Vojíř
Chairman of the Audit Committee

REPORT OF THE AUDIT COMMITTEE OF ČD CARGO, A.S. ON THE CONSOLIDATED FINANCIAL STATEMENTS OF ČD CARGO, A.S. PREPARED UNDER IFRS AS ADOPTED BY THE EU FOR THE YEAR FROM 1 JANUARY 2012 TO 31 DECEMBER 2012, INCLUDING THE AUDITOR'S OPINION

The Audit Committee of ČD Cargo, a.s., in line with the relevant provisions of Act 93/2009 Coll., on Auditors, as amended, and the Articles of Association of ČD Cargo, a.s., as amended, continuously monitored the proceedings taken in the preparation of the Consolidated Financial Statements of ČD Cargo, a.s. under IFRS as adopted by the EU, the procedure of the audit of the financial statements and all related documents for the year from 1 January 2012 to 31 December 2012, from the preparation phase of the whole process.

The Audit Committee was made aware by the representatives of ČD Cargo, a.s., duly and on time, of the relevant information and materials related to individual steps taken in preparing the Consolidated Financial Statements of ČD Cargo, a.s. under IFRS as adopted by the EU, for the year from 1 January 2012 to 31 December 2012.

The Audit Committee also assessed the impartiality and independence of the Company's auditor – Deloitte Audit s.r.o., discussed and communicated selected accounting information, and issued statements and communications in accordance with applicable legislation. During the preparation of the Consolidated Financial Statements under IFRS for the year from

1 January 2012 to 31 December 2012, the obligatory audit thereof and the relating activities, the Audit Committee, acting in its capacity, identified no errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor.

With regard to the facts outlined above and in respect of the draft Auditor's Opinion on the Consolidated Financial Statements prepared under IFRS, the Audit Committee recommends that the Consolidated Financial Statements of ČD Cargo, a.s. prepared under IFRS as adopted by the EU for the year from 1 January 2012 to 31 December 2012 and the Auditor's Opinion be discussed by the bodies of ČD Cargo, a.s. and approved by the sole shareholder acting in the capacity of the General Meeting.

Based on the information disclosed above, the Audit Committee of ČD Cargo, a.s. states that it fulfilled the obligations arising from legal regulations, principally from Act 93/2009 Coll., on Auditors of 26 March 2009, as amended, the Articles of Association of ČD Cargo, a.s., as amended, and that it took into consideration all information it has received related to the Consolidated Financial Statements of ČD Cargo, a.s., under IFRS as adopted by the EU, for the year from 1 January 2012 to 31 December 2012, and the Auditor's Opinion.

Oldřich Vojíř
Chairman of the Audit Committee

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Independent Auditor's Reports

To the Shareholders of ČD Cargo, a.s.

Having its registered office at: Jankovcova 1569/2c, 170 00 Praha 7 - Holešovice
Identification number: 281 96 678

REPORT ON THE FINANCIAL STATEMENTS
Based upon our audit, we issued the following audit report dated 21 March 2013 on the financial statements which are included in this annual report in chapter Single financial statements (CAS):

"We have audited the accompanying financial statements of ČD Cargo, a.s., which comprise the balance sheet as of 31 December 2012, 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 2012, 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 Notes 4.10. and 4.2. to the financial statements describing the uncertainty relating largely to the Company's restructuring that will materially impact the Company's future operations, and for which appropriate reserves were recognised and a valuation difference on acquired assets written off. Given the current economic situation and in view of the development of railway freight transportation, management of the Company has decided to make organisational changes on the basis of the developed restructuring plan as of 31 December 2012. The impact of this plan was reflected in the financial statements through the recognition of reserves which total CZK 1,320 million as of the financial statements date, of which a substantial part relates to the restructuring and business risks and disputes. In respect of the restructuring plan referred to above, the Company re-assessed the usability of its rolling stock and the aggregate balance of tangible fixed assets and reported a provision for vehicles of CZK 58 million and an extraordinary write-off of the valuation difference on acquired assets of CZK 1,192 million. Our opinion is not modified in respect of these matters."

REPORT ON THE FINANCIAL STATEMENTS (IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS)
Based upon our audit, we issued the following audit report dated 4 April 2013 on the financial statements which are included in this annual report in chapter Separate financial statements (IFRS):

"We have audited the accompanying financial statements of ČD Cargo, a.s. which comprise the statement of financial position as of 31 December 2012, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of ČD Cargo, a.s. as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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Emphasis of Matters
We draw attention to Notes 4.8. and 23. to the financial statements describing the uncertainty relating largely to the Company's restructuring that will materially impact the Company's future operations, and for which appropriate provisions were recognised. Given the current economic situation and in view of the development of railway freight transportation, management of the Company has decided to make organisational changes on the basis of the developed restructuring plan as of 31 December 2012. The impact of this plan was reflected in the financial statements through the recognition of provisions which total CZK 1,320 million as of the financial statements date, of which a substantial part relates to the restructuring and business risks and disputes. Our opinion is not modified in respect of these matters."

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS (IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS)
Based upon our audit, we issued the following audit report dated 4 April 2013 on the financial statements which are included in this annual report in chapter Consolidated financial statements (IFRS):

"We have audited the accompanying consolidated financial statements of ČD Cargo, a.s. and its subsidiaries which comprise the statement of financial position as of 31 December 2012, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of ČD Cargo, a.s. and its subsidiaries as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matters
We draw attention to Notes 4.8. and 23. to the financial statements describing the uncertainty relating largely to the Company's restructuring that will materially impact the Company's future operations, and for which appropriate provisions were recognised. Given the current economic situation and in view of the development of railway freight transportation, management of the Company has decided to make organisational changes on the basis of the developed restructuring plan as of 31 December 2012. The impact of this plan was reflected in the financial statements through the recognition of provisions which total CZK 1,320 million as of the financial statements date, of whicha substantial part relates to the restructuring and business risks and disputes. Our opinion is not modified in respect of these matters."

REPORT ON THE RELATED PARTY TRANSACTIONS REPORT
Based upon our review, we issued the following review report dated 21 March 2013 on the related party transactions report which is included in this annual report in chapter Report on relations between Related Parties:

"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 2012. 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 2012 contains material factual misstatements. "

REPORT ON THE ANNUAL REPORT
We have also audited the annual report of the Company as of 31 December 2012 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 23 April 2013

Audit firm (certificate no. 79):	Statutory auditor (certificate no. 2037):
Deloitte Audit s.r.o.	**Václav Loubek**

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Single Financial Statements (CAS)

Name of the Company: ČD Cargo, a.s.

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

Legal Status: Joint Stock Company

Corporate ID: 281 96 678

Balance Sheet (full version)

As of 31. 12. 2012 (CZK '000)		31. 12. 2012			31. 12. 2011
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**32 935 808**	**18 003 672**	**14 932 136**	**15 663 965**
B.	**Fixed assets**	**30 143 083**	**17 890 565**	**12 252 518**	**12 956 870**
B.I.	**Intangible fixed assets**	**638 018**	**372 048**	**265 970**	**246 634**
B.I.1.	Start-up costs	28 492	27 067	1 425	7 123
B.I.3.	Software	377 273	254 919	122 354	134 832
B.I.4.	Valuable rights	139 236	90 062	49 174	62 685
B.I.7.	Intangible fixed assets under construction	93 017		93 017	41 994
B.II.	**Tangible fixed assets**	**29 312 673**	**17 518 517**	**11 794 156**	**12 548 640**
B.II.1.	Land	81 240		81 240	81 240
B.II.2.	Structures	1 329 986	611 597	718 389	651 916
B.II.3.	Individual movable assets and sets of movable assets	22 070 259	13 813 622	8 256 637	7 386 647
B.II.6.	Other tangible fixed assets	48		48	48
B.II.7.	Tangible fixed assets under construction	114 492		114 492	109 229
B.II.8.	Prepayments for tangible fixed assets	105 237		105 237	235 700
B.II.9.	Valuation difference on acquired assets	5 611 411	3 093 298	2 518 113	4 083 860
B.III.	**Non-current financial assets**	**192 392**		**192 392**	**161 596**
B.III.1.	Equity investments - subsidiary (controlled entity)	129 458		129 458	102 344
B.III.2.	Equity investments in associates	52 162		52 162	43 202
B.III.4.	Loans and borrowings - controlled or controlling entity, associates	7 452		7 452	12 661
B.III.5.	Other non-current financial assets	3 320		3 320	3 389
C.	**Current assets**	**2 380 157**	**113 107**	**2 267 050**	**2 359 933**
C.I.	**Inventories**	**131 812**		**131 812**	**127 729**
C.I.1.	Material	131 812		131 812	127 729
C.II.	**Long-term receivables**	**3 314**		**3 314**	**9 695**
C.II.3.	Receivables - substantial influence	3 211		3 211	6 578
C.II.5.	Long-term prepayments made	90		90	141
C.II.7.	Other receivables	13		13	2 976
C.III.	**Short-term receivables**	**2 086 966**	**113 107**	**1 973 859**	**2 129 984**
C.III.1.	Trade receivables	1 699 335	113 107	1 586 228	1 604 761
C.III.3.	Receivables - substantial influence	8 575		8 575	8 602
C.III.6.	State - tax receivables	11 176		11 176	139 366
C.III.7.	Short-term prepayments made	96 288		96 288	98 914
C.III.8.	Estimated receivables	217 554		217 554	264 378
C.III.9.	Other receivables	54 038		54 038	13 963
C.IV.	**Current financial assets**	**158 065**		**158 065**	**92 525**
C.IV.1.	Cash on hand	1 914		1 914	2 164
C.IV.2.	Cash at bank	156 151		156 151	90 361
D. I.	**Other assets**	**412 568**		**412 568**	**347 162**
D.I.1.	Deferred expenses	412 150		412 150	341 088
D.I.3.	Accrued income	418		418	6 074

Balance Sheet (full version)

K 31. 12. 2012 (CZK '000)		31. 12. 2012	31. 12. 2011
	TOTAL LIABILITIES & EQUITY	**14 932 136**	**15 663 965**
A.	**Equity**	**6 049 221**	**8 008 958**
A.I.	**Share capital**	**8 494 000**	**8 494 000**
A.I.1.	Share capital	8 494 000	8 494 000
A.II.	**Capital funds**	**188 559**	**166 175**
A.II.1.	Share premium	138 540	138 540
A.II.3.	Gains or losses from the revaluation of assets and liabilities	50 019	27 635
A.III.	**Statutory funds**	**155 380**	**178 715**
A.III.1.	Statutory reserve fund/Indivisible fund	60 653	60 653
A.III.2.	Statutory and other funds	94 727	118 062
A.IV.	**Retained earnings**	**-829 932**	**-757 496**
A.IV.1.	Accumulated profits brought forward	97 331	97 331
A.IV.2.	Accumulated losses brought forward	-927 263	-854 827
A.V.	**Profit or loss for the current period (+ -)**	**-1 958 786**	**-72 436**
B.	**Liabilities**	**8 831 110**	**7 594 274**
B.I.	**Reserves**	**1 320 047**	**767 882**
B.I.4.	Other reserves	1 320 047	767 882
B.II.	**Long-term liabilities**	**3 208 808**	**3 106 369**
B.II.5.	Long-term prepayments received	3 803	41 915
B.II.6.	Bonds issued	2 500 000	2 000 000
B.II.9.	Other payables	271 127	541 857
B.II.10	Deferred tax liability	433 878	522 597
B.III.	**Short-term liabilities**	**3 442 750**	**3 370 314**
B.III.1.	Trade payables	2 107 805	1 837 632
B.III.5.	Payables to employees	275 325	258 031
B.III.6.	Social security and health insurance payables	118 143	118 933
B.III.7.	State - tax payables and subsidies	64 976	34 999
B.III.8.	Short-term prepayments received	40 205	56 236
B.III.10	Estimated payables	331 599	325 274
B.III.11	Other payables	504 697	739 209
B.IV.	**Bank loans and borrowings**	**859 505**	**349 709**
B.IV.2.	Short-term bank loans	859 505	349 709
C. I.	**Other liabilities**	**51 805**	**60 733**
C.I.1.	Accrued expenses	49 791	58 631
C.I.2.	Deferred income	2 014	2 102

Profit and Loss Account

Year ended 31. 12. 2012 (CZK '000)		Year ended 31. 12. 2012	Year ended 31. 12. 2011
II.	Production	14 100 989	14 527 818
II.1.	Sales of own products and services	13 928 088	14 404 017
II.3.	Own work capitalised	172 901	123 801
B.	Purchased consumables and services	8 642 725	8 281 310
B.1.	Consumed material and energy	2 369 140	2 375 022
B.2.	Services	6 273 585	5 906 288
+	**Added value**	**5 458 264**	**6 246 508**
C.	Staff costs	4 415 993	4 431 519
C.1.	Payroll costs	3 167 942	3 169 458
C.2.	Remuneration to members of statutory bodies	19 054	15 908
C.3.	Social security and health insurance costs	1 040 195	1 052 450
C.4.	Social costs	188 802	193 703
D.	Taxes and charges	4 083	9 620
E.	Depreciation of intangible and tangible fixed assets	2 579 867	1 218 100
III.	Sales of fixed assets and material	675 039	33 998
III.1.	Sales of fixed assets	658 181	16 335
III.2.	Sales of material	16 858	17 663
F.	Net book value of fixed assets and material sold	593 150	17 893
F.1.	Net book value of sold fixed assets	581 950	4 480
F.2.	Book value of sold material	11 200	13 413
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-2 694	342 520
IV.	Other operating income	170 856	183 524
H.	Other operating expenses	122 042	130 833
*	**Operating profit or loss**	**-1 408 282**	**313 545**
VI.	Proceeds from the sale of securities and investments	19	
J.	Cost of securities and investments sold	756	
VII.	Income from non-current financial assets	36 114	15 850
VII.3.	Income from other non-current financial assets	36 114	15 850
IX.	Income from the revaluation of securities and derivates	43 514	105 109
L.	Costs of the revaluation of securities and derivates	64 012	176 546
X.	Interest income	1 775	1 868
N.	Interest expenses	100 114	57 787
XI.	Other financial income	376 676	173 636
O.	Other financial expenses	396 640	149 522
*	**Financial profit or loss**	**-103 424**	**-87 392**
Q.	Income tax on ordinary activities	-27 151	124 304
Q 1.	- due		3 720
Q 2.	- deferred	-27 151	120 584
**	**Profit or loss from ordinary activities**	**-1 484 555**	**101 849**
R.	Extraordinary expenses	535 000	215 166
S.	Income tax on extraordinary activities	-60 769	-40 881
S.2.	- deferred	-60 769	-40 881
*	**Extraordinary profit or loss**	**-474 231**	**-174 285**
***	**Profit or loss for the current period (+/-)**	**-1 958 786**	**-72 436**
****	**Profit or loss before tax**	**-2 046 706**	**10 987**

Statement of Changes in Equity

Year ended 31. 12. 2012 (CZK '000)	Share capital	Capital funds	Statutory funds	Statutory reserve fund	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2010	**8 494 000**	**26 142**	**143 457**	**60 653**	**97 331**	**-427 714**	**-427 113**	**7 966 756**
Distribution of profit or loss						-427 113	427 113	
Change in share capital		28 740						28 740
Dividends paid		132 308						132 308
Payments from capital funds		-21 015						-21 015
			-25 395					-25 395
Profit or loss for the current period							-72 436	-72 436
Balance at 31 December 2011	**8 494 000**	**166 175**	**118 062**	**60 653**	**97 331**	**-854 827**	**-72 436**	**8 008 958**
Distribution of profit or loss						-72 436	72 436	
Change in share capital		25 789						25 789
Dividends paid		-4 204						-4 204
Payments from capital funds		799						799
			-23 335					-23 335
Profit or loss for the current period							-1 958 786	-1 958 786
Balance at 31 December 2012	**8 494 000**	**188 559**	**94 727**	**60 653**	**97 331**	**-927 263**	**-1 958 786**	**6 049 221**

Cash Flow Statement

Year ended 31. 12. 2012 (CZK '000)		Year ended 31. 12. 2012	Year ended 31. 12. 2011
P.	**Opening balance of cash and cash equivalents**	**92 525**	**236 494**
	Cash flows from ordinary activities		
Z.	Profit or loss from ordinary activities before tax	-1 511 706	227 153
A.1.	Adjustments for non-cash transactions	2 579 323	1 578 711
A.1.1.	Depreciation of fixed assets	2 579 867	1 218 100
A.1.2.	Change in provisions and reserves	-2 694	341 520
A.1.3.	Profit/(loss) on the sale of fixed assets	-76 231	-11 855
A.1.4.	Revenues from dividends and profit shares	-36 114	-15 850
A.1.5.	Interest expense and interest income	98 339	55 919
A.1.6.	Adjustments for other non-cash transactions	16 155	-9 123
A.*	**Net operating cash flow before changes in working capital**	**1 067 617**	**1 805 864**
A.2.	Change in working capital	657 416	-751 269
A.2.1.	Change in operating receivables and other assets	56 011	-267 706
A.2.2.	Change in operating payables and other liabilities	607 907	-472 087
A.2.3.	Change in inventories	-6 502	-11 476
A.**	**Net cash flow from operations before tax and extraordinary items**	**1 725 033**	**1 054 595**
A.3.	Interest paid	-100 114	-57 787
A.4.	Interest received	1 775	1 868
A.5.	Income tax paid from ordinary operations	-6 258	33 108
A.7.	Received dividends and profit shares	36 114	15 850
A.***	**Net operating cash flows**	**1 656 550**	**1 047 634**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-2 688 093	-1 432 749
B.2.	Proceeds from fixed assets sold	658 181	16 335
B.***	**Net investment cash flows**	**-2 029 912**	**-1 416 414**
	Cash flow from financial activities		
C.1.	Change in payables from financing	462 238	250 206
C.2.	Impact of changes in equity	-23 335	-25 395
C.2.5.	Payments from capital funds	-23 335	-25 395
C.***	**Net financial cash flows**	**438 903**	**224 811**
F.	**Net increase or decrease in cash and cash equivalents**	**65 540**	**-143 969**
R.	**Closing balance of cash and cash equivalents**	**158 065**	**92 525**

ANNUAL REPORT 2012 OF ČD CARGO, A.S.

1. General Information

1.1. 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 2012, the Company reported the share capital of CZK 8,494,000 thousand which was fully paid in.

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 into two principal segments:

- Transportation of complete trains; and
- Transportation of individual wagon loads.

The above segments are structured by the type of transportation as follows:

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

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

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

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

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

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

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

As part of its business activities, the Company, in its role as transporter, operated 985 tariff points with dispatching authority for transportation of wagon loads and 1,043 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.

1.2. 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 2011 and 2012. The costs for the years ended 31 December 2011 and 2012 are disclosed in Point 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 2011 and 2012 is disclosed in Point 4.22.

As of 31 December 2012, 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 409,285 thousand in the year ended 31 December 2012. In the year ended 31 December 2011, the aggregate net value of the receivables and payables represented a payable of CZK 476,375 thousand.

The Company is conducting a legal dispute with Správa železniční dopravní cesty, s.o. regarding the price of the purchased traction electricity during the 2009 reporting period. This dispute was not finalised as of the 2012 financial statements date.

In addition, the Company is conducting a legal dispute with Správa železniční dopravní cesty, s.o. on the method of settlement arising from the damages due to traffic closures of SŽDC, s.o. This dispute was not finalised as of the 2012 financial statements date.

1.3. 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.

1.4. 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.

ČD Cargo, a.s. also manages the ČD Cargo consolidation group which includes entities disclosed in Points 4.3.1. and 4.3.2. The Company prepares the consolidated financial statements under International Financial reporting Statements for this group for the year ended 31 December 2012.

1.5. 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 three-member Board of Directors, the supervisory body is the five-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 2012:

Board of Directors of ČD Cargo, a.s.

- Petr Žaluda, Chairman of the Board of Directors
- Petr May, Member of the Board of Directors
- Vlastimil Chobot, Member of the Board of Directors

On 24 April 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, decided to decrease the number of members of the Board of Directors from four to three members, recalled Jan Vlasák and Sonny Sonnberger as members of the Board of Directors and appointed Roman Vallovič a member of the Board of Directors with effect from 24 April 2012.

At its meeting held on 5 September 2012, the Board of Directors discussed the written announcement on the resignation of the member, Jiří Špička. His position of the member of the Board of Directors expired on 5 September 2012.

On 25 September 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Petr May as a member of the Board of Directors with effect from 25 September 2012.

On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Roman Vallovič as a member of the Board of Directors and appointed Petr Žaluda a member of the Board of Directors with effect from 2 October 2012.

Gustav Slamečka resigned from the position of a member of the Board of Directors by making a written announcement to the Board of Directors dated 8 October 2012. At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors discussed and acknowledged this announcement in its Resolution no. 1365/2012 and concurrently approved 8 October 2012 as the expiration date of his position.

At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors appointed Petr Žaluda as Chairman of the Board of Directors with effect from 9 October 2012 pursuant to Resolution No. 1366/2012.

On 9 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Vlastimil Chobot a member of the Board of Directors with effect from 9 October 2012.

Supervisory Board of ČD Cargo, a.s.

- Radek Nekola, Member of the Supervisory Board
- Jindřich Nohal, Member of the Supervisory Board
- Zdeněk Prosek, Member of the Supervisory Board
- Milan Špaček, Member of the Supervisory Board
- Miroslav Zámečník, Member of the Supervisory Board

On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Petr Žaluda as a member of the Supervisory Board.

Administration Board of ČD Cargo, a.s.

- Vít Veselý, Chairman of the Administration Board
- Jaroslav Novák, Member of the Administration Board
- Michal Zděnek, Member of the Administration Board

On 14 February 2012, Vít Veselý was appointed Chairman of the Administration Board on its 26th meeting.

On 24 July 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Jiří Franc and Jakub Kopřiva as members of the Administration Board and appointed Jaroslav Novák and Michal Zděnek members of the Supervisory 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

No changes were made in this body during the reporting period.

2. Accounting Policies And General Accounting Principles

The financial statements are prepared and presented in accordance with Accounting Act 563/1991 Coll., as amended, and Regulation 500/2002 Coll., 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 Point 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.

2.1. REPORTING PERIOD

The financial statements of the Company as of 31 December 2012 are prepared as follows:

- The balance sheet contains the information as of 31 December 2012 and the comparative information as of 31 December 2011;
- The profit and loss account contains information for the year ended 31 December 2012 and the comparative information for the year ended 31 December 2011;
- The statement of changes in equity contains the information for the year ended 31 December 2012 and the comparative information for the year ended 31 December 2011; and
- The cash flow statement contains the information for the year ended 31 December 2012 and the comparative information for the year ended 31 December 2011.

3. Summary Of Significant Accounting Policies

3.1. 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, assets also include assets with an acquisition cost lower than CZK 40 thousand. This also applies to all railway vehicles (primarily after the termination of the lease).

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.

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 %

The useful lives of wagons that were modernised were set at 20 years from the modernisation date.

Components

Components are repairs that correspond to the definition of the inspection of fault occurrence listed in Regulation No. 500/2002 Coll., Section 56a (2), and comply with the definitions of components (according to Section 56a (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 56a, (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 speed lower than 120 km/hour 2 years
- Wagons with speed lower than 100 km/hour 6 years
- Wagons with short spring carriers 4 years

Components in passenger train units are depreciated over 5 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 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.

3.2. 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. 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 %

3.2.1. 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.

3.2.2. 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.

3.3. 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.

3.4. 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 places 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.

3.5. 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.

3.6. 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, tax-deductible provisions are recognised against receivables in accordance with Act No. 593/1992 Coll., the Provisioning Act, and tax non-deductible provisions against receivables depending on the periods past their due dates as follows:

- An additionally recognised full provision against receivables past their due dates by more than 721 days;
- An additionally recognised 50% provision against receivables past their due dates between 361 and 720 days; and
- An additionally recognised 20% provision against receivables past their due dates between 180 and 360 days.

The above policy does not apply to receivables from the entities from within the České dráhy Group. Other entities are excluded pursuant to an individual assessment (eg based on an agreement on a repayment schedule, etc).

3.7. 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.

3.8. 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.

3.9. 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.

3.10. 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.

The reserve for employee benefits includes the claim of employees for a financial contribution at life jubilees, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays.

In calculating the employee benefits reserve, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents such as: anticipated fluctuation of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds. A change in the amount of the reserve due to the change in these parameters will be reported in profit and loss account line G "Change in reserves and provisions relating to operating activities and complex deferred expenses". In 2011, which was the first year of the recognition of this reserve, the charge was accounted for in full through extraordinary expenses.

The reserve for restructuring is recognised as equal to the estimated future cash outflows pursuant to the restructuring plan. The recognition of the reserve is reported through extraordinary expenses.

3.11. FOREIGN CURRENCY TRANSLATION
Transactions denominated in foreign currencies are recorded at the fixed exchange

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

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

3.12. 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.

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

3.14. TAXATION

3.14.1. Depreciation of Fixed Assets for Tax Purposes
Depreciation of fixed assets is calculated using the straight line method for tax purposes.

3.14.2. 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.

3.14.3. 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 be applicable in the period when the tax liability is settled or the asset realised. The balance sheet liability method focuses on temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

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

3.15. 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.

3.16. 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.

3.17. 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.

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

3.19. 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. As of 31 December 2011, the Company accounted for the recognition of the reserves for restructuring and employee benefits through extraordinary expenses. As of 31 December 2012, the Company accounted for the recognition of the reserves for restructuring (refer to Point 3.10.).

3.20. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES
In the year ended 31 December 2012, the Company changed the reporting of payables to and receivables from foreign railway companies integrated into overdrafts irrespective of bilateral or multilateral settlement.

In the year ended 31 December 2011, the Company reported the aggregate net value of receivables from and payables to all foreign railway companies on an aggregate basis in line C.III.1 'Trade receivables'.

In the year ended 31 December 2012, the Company reports the aggregate net value of receivables from and payables to foreign railway companies individually in line C.III.1 'Trade receivables' and line C.III.9 'Other receivables', or line B.III.1 'Trade payables', depending on whether the Company records a receivable from or a payable to the foreign railway company.

As of 31 December 2012, the Company reports an amount of CZK 125,345 thousand in line C.III.1 'Trade receivables', CZK 1,649 thousand in line C.III.9 'Other receivables' and CZK 19,727 thousand in line B.III.1 'Trade payables'.

3.21. 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:

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(CZK '000)	31 Dec 2012	31 Dec 2011
Cash on hand and cash in transit	1 914	2 164
Cash at bank	156 151	90 361
Total cash and cash equivalents	**158 065**	**92 525**

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

4. Additional Information On The Balance Sheet And Profit And Loss Account

4.1. FIXED ASSETS

4.1.1. Intangible Fixed Assets

Cost

(CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Transfers	Balance on 31 Dec 2011	Additions	Disposals	Transfers	Balance on 31 Dec 2012
Start-up costs	28 492	0	0	0	28 492	0	0	0	28 492
Software	300 445	49 065	0	-3 345	346 165	31 108	0	0	377 273
Valuable rights	114 304	16 930	98	3 345	134 481	4 755	0	0	139 236
Intangible FA under construction	41 900	66 232	66 138	0	41 994	98 524	47 501	0	93 017
Total	**485 141**	**132 227**	**66 236**	**0**	**551 132**	**134 387**	**47 501**	**0**	**638 018**

Accumulated Amortisation

(CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Transfers	Balance on 31 Dec 2011	Additions	Disposals	Transfers	Balance on 31 Dec 2012
Start-up costs	15 671	5 698	0		21 369	5 698	0	0	27 067
Software	176 117	35 309	0	-93	211 333	43 586	0	0	254 919
Valuable rights	46 102	25 699	98	93	71 796	18 266	0	0	90 062
Total	**237 890**	**66 706**	**98**	**0**	**304 498**	**67 550**	**0**	**0**	**372 048**

Net Book Value

(CZK '000)	Balance on 31 Dec 2010	Balance on 31 Dec 2011	Balance on 31 Dec 2012
Start-up costs	12 821	7 123	1 425
Software	124 328	134 832	122 354
Valuable rights	68 202	62 685	49 174
Intangible FA under construction	41 900	41 994	93 017
Total	**247 251**	**246 634**	**265 970**

Intangible fixed assets predominantly include the formation yards information systems, SAP upgrade, the Microsoft Enterprise Agreement licence, OPT information system, the central wagon navigation information system and other systems used by the Company.

Intangible fixed assets under construction predominantly include the development of software for the railway transportation and financial management of the Company. The principal item includes the costs relating to the development of a new operational business information system – PROBIS.

4.1.2. 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 2012 and 2011 amounted to CZK 5,698 thousand and CZK 5,698 thousand, respectively.

4.2. TANGIBLE FIXED ASSETS

Cost

(CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Transfers	Balance on 31 Dec 2011	Additions	Disposals	Transfers	Balance on 31 Dec 2012
Land	81 240	0	0	0	81 240	0	0	0	81 240
Buildings	1 158 196	77 584	247	758	1 236 291	95 524	1 829	0	1 329 986
Individual movable assets of which	19 624 248	1 027 620	108 336	-758	20 542 774	2 329 689	802 204	0	22 070 259
Components	2 349 438	710 632	1 179	755	3 059 646	832 583	161 583	0	3 730 646
Machinery and equipment	419 305	31 338	20 475	4 910	435 078	57 295	17 584	9 395	484 184
Vehicles	19 191 347	991 517	82 909	-926	20 099 029	2 272 368	782 689	-9 498	21 579 210
Furniture and fixtures	13 597	4 765	4 952	-4 743	8 667	26	1 931	103	6 865
Works of art	48	0	0	0	48	0	0	0	48
Tangible fixed assets under construction	95 182	1 119 444	1 105 397	0	109 229	2 475 084	2 469 821	0	114 492
Prepayments for tangible fixed assets	239 427	0	27	0	239 400	1 479 130	1 613 293	0	105 237
Valuation difference on acquired assets	5 611 411	0	0	0	5 611 411	0	0	0	5 611 411
Total	**26 809 752**	**2 224 648**	**1 214 007**	**0**	**27 820 393**	**6 379 427**	**4 887 147**	**0**	**29 312 673**

Accumulated Depreciation

(CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Transfers	Balance on 31 Dec 2011	Additions	Disposals	Transfers	Balance on 31 Dec 2012
Buildings	558 690	25 872	247	60	584 375	28 197	975	0	611 597
Individual movable assets of which	12 400 349	751 780	103 469	-60	13 048 600	922 374	215 006	0	13 755 968
Components	692 162	364 434	299	430	1 056 727	496 895	51 100	0	1 502 522
Machinery and equipment	290 495	16 171	20 413	3 774	290 027	28 240	13 375	8 137	313 029
Vehicles	12 097 207	735 317	78 140	-3 766	12 750 618	893 918	199 760	-8 065	13 436 711
Furniture and fixtures	12 647	292	4 916	-68	7 955	216	1 871	-72	6 228
Valuation difference on acquired assets	1 153 457	374 094	0	0	1 527 551	1 565 747	0	0	3 093 298
Total	**14 112 496**	**1 151 746**	**103 716**	**0**	**15 160 526**	**2 516 318**	**215 981**	**0**	**17 460 863**

Provisions

(CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Balance on 31 Dec 2011	Additions	Disposals	Balance on 31 Dec 2012
Individual movable assets	34 549	107 527	34 549	107 527	57 654	107 527	57 654
Vehicles	34 549	107 527	34 549	107 527	57 654	107 527	57 654
Prepayments for tangible FA	0	3 700	0	3 700	5 000	8 700	0
Total	**34 549**	**111 227**	**34 549**	**111 227**	**62 654**	**116 227**	**57 654**

Net Book Value

(CZK '000)	Balance on 31 Dec 2010	Balance on 31 Dec 2011	Balance on 31 Dec 2012
Land	81 240	81 240	81 240
Buildings	599 506	651 916	718 389
Individual movable assets of which	7 189 350	7 386 647	8 256 637
Components	1 657 276	2 002 919	2 228 124
Machinery and equipment	128 811	145 051	171 155
Vehicles	7 059 590	7 240 884	8 084 845
Furniture and fixtures	950	712	637
Works of art	48	48	48
Tangible fixed assets under construction	95 182	109 229	114 492
Prepayments for tangible fixed assets	239 427	235 700	105 237
Valuation difference on acquired assets	4 457 954	4 083 860	2 518 113
Total	**12 662 707**	**12 548 640**	**11 794 156**

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

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, wagons) 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 recoverable amount in the amount of CZK 57,654 thousand.

Principal additions to individual movable assets in the year ended 31 December 2012 included the modernisation of the 363.5 series traction vehicles of CZK 1,108,447 thousand, major and general repairs (components) of traction vehicles of CZK 530,248 thousand, inspection repairs (components) of wagons of CZK 302,350 thousand and improvements on wagons of CZK 231,926 thousand.

In the years ended 31 December 2012 and 2011, the Company acquired tangible fixed assets recognised in expenses in the amounts of CZK 30,360 thousand and CZK 31,854 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 105,237 thousand as of 31 December 2012 and relate to the ongoing modernisation of traction vehicles from series 163 to series 363.5.

In 2012, the Company decided to restructure its rolling stock and selected 4,700 wagons and approximately 100 traction vehicles for scrapping. In respect of this planned transaction, the Company reported the above-stated provision against vehicles of CZK 57,654 thousand and an extraordinary write-off of the valuation difference of CZK 1,191,653 thousand.

4.2.1. Fixed Assets Pledged as Security
As of 31 December 2012 and 2011, no assets of the Company were pledged as security.

4.2.2. Investment Grants
As compared to 2011, when Company received no investment grants, it received investment grants of CZK 58,413 thousand in 2012.

4.2.3. Assets Held under Finance Leases

Finance Leases

Description (CZK '000)	Date of inception	Term in months	Total lease value (net of VAT)	Payments made at 31 Dec 2012 from the inception of the lease	Due (in 2013)	Due (in the following years)
Locomotive 709	1/07	120	55 878	33 681	5 402	16 795
Locomotive 753	12/08	120	1 169 662	378 531	116 058	675 073
Locomotive 230	12/10	120	272 268	88 744	23 181	160 343
Wagons:						
Sgnss	1/07	123	416367	241 571	41 071	133 725
Sgnss – Framework contract	10/05	96	144 597	131 946	12 651	0
Habbilnss	12/05	96	850 882	726 300	104 010	20 572
Zacns	4/06	96	79 217	66 320	9 673	3 224
Tadnss/Tadgnss	5/06	96	285 339	232 611	34 841	17 887
Sggmrss 90´	12/07	60	381 804	295 612	86 192	0
Sggrss 80´	7/08	60	709 065	465 963	223 168	19 934
Zacns	10/10	120	199 852	42 608	19 982	137 262
ŽNV 1145 ks	12/09	120	1 476 505	626 005	121 500	729 000
HV 363 ČSOB	12/12	120	396 279	48 453	34 782	313 044
HV 363 SGE	12/12	120	394 891	48 283	34660	311 948
Total			**6 832 606**	**3 426 628**	**867 171**	**2 538 807**

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

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. As a result of the termination of the activities of Fortis Lease Czech, s.r.o., the outstanding principal amount was transferred to Raiffeisen – Leasing, s.r.o. with effect from 1 April 2011.

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.

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 spol. 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 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 always changes 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, a.s. in the aggregate volume of seven 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 1,932 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 always changes 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 14 December 2012, ČD Cargo, a.s. concluded a contract for the funding of traction vehicles modernisation through leaseback, specifically five 363.5 series traction vehicles, with SG Equipment Finance Czech Republic, s.r.o. The selling price was CZK 321,885 thousand (net of VAT). The initial lump sum prepayment of CZK 48,283 thousand (net of VAT) was due as of the day when the leased asset was taken over. The lease period is determined to be 10 years (120 payments of CZK 2,888 thousand net of VAT). Lease payments remain unchanged over the lease period. Each of the above-stated leased assets is paid based on an individual payment schedule.

On 14 December 2012, ČD Cargo, a.s. concluded a contract for the funding of the traction vehicles modernisation through leaseback, specifically five 363.5 series traction vehicles, with ČSOB Leasing, a.s. The selling price was CZK 323,017 thousand (net of VAT). The initial lump sum prepayment of CZK 48,453 thousand (net of VAT) was due as of the day when the leased asset was taken over. The lease period is determined to be 10 years (120 payments of CZK 2,899 thousand net of VAT). Lease payments remain unchanged over the lease period. Each of the above-stated leased assets is paid based on an individual payment schedule.

4.2.4. Operating Leases

In the year ended 31 December 2009, the Company held cars under operating leases. The aggregate amount of leases was CZK 48,548 thousand as of 31 December 2012. During 2012, payments made amounted to CZK 21,159 thousand. During 2011, instalments made amounted to CZK 19,749 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 2012 and 2011 amounted to CZK 36,854 thousand and CZK 38,540 thousand, respectively. The total operating lease payments as of 31 December 2012 and 2011 amounted to CZK 9,521 thousand and CZK 10,838 thousand, respectively.

4.3. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK '000)	Carrying value		Carrying value				Carrying value
	Balance at 31 Dec 2010	Revaluation at 31 Dec 2011	Balance at 31 Dec 2011	Addition	Disposal	Revaluation at 31 Dec 2012	Balance at 31 Dec 2012
Equity investments in subsidiaries	85 264	17 080	102 344	11 796	756	16 074	129 458
Equity investments in associates	31 543	11 659	43 202	0	0	8 960	52 162
Total	**116 807**	**28 739**	**145 546**	**11 796**	**756**	**25 034**	**181 620**

4.3.1. Equity Investments in Subsidiaries

Year Ended 31 December 2012

Name of the entity (CZK '000)	Registered office	Valuation at 31 Dec 2011	Addition	Disposal	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2012
CD Generalvertretung GmbH	Kaiserstrasse 60, 60 329 Frankfurt am Main, Germany	16 270	0	0	2 343	100	18 613	17 356	18 613
Koleje Czeskie Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-131Warsaw, Poland	22 899	0	0	20 499	100	43 399	29 293	43 398
CD – Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Vienna, Austria	6 939	0	0	-5 095	100	1 844	31	1 844
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozská 4/B, 821 09 Bratislava	6 739	0	0	-3 706	100	3 033	1 405	3 033
Terminal Brno, a.s.	Brno, K terminálu 614/11, 619 00	33 312	10 840	0	1 812	66.94	68 667	653	45 964
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189, 410 02	3 203	0	0	311	51	6 890	609	3 514
ČD Trans s.r.o.	Leninova 22, 224005 Brest, Belarus	0	756	756	0	0	0	0	0
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37, 110 00	12 982	0	0	-90	56	23 022	-161	12 892
Auto Terminal Nymburk, s.r.o.	Jankovcova 1569/2c, 170 00 Prague 7	0	200	0	0	100	200	0	200
Total		**102 344**	**11 796**	**756**	**16 074**				**129 458**

- Equity and profit or loss of certain entities are preliminary unaudited figures.

Year Ended 31 December 2011

Name of the entity (CZK '000)	Registered office	Valuation at 31 Dec 2010	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2011
CD Generalvertretung GmbH	Kaiserstrasse 60, 60 329 Frankfurt am Main, Germany	12 060	4 210	100	16 270	14 759	16 270
Koleje Czeskie Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-131 Warsaw, Poland	10 386	12 513	100	22 899	12 409	22 899
CD – Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Vienna, Austria	7 333	-394	100	6 939	699	6 939
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozská 4/B, 821 09 Bratislava	6 405	334	100	6 739	4 701	6 739
Terminal Brno, a.s.	Brno, K terminálu 614/11, 619 00	35 834	-2 522	66.94	49 766	- 3 768	33 312
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189, 410 02	3 092	111	51	6 281	219	3 203
ČD Trans s.r.o.	Leninova 22, 224005 Brest, Belarus	0	0	51	*	*	0
ČD Logistics, a.s.	Prague 1, Opletalova 1284/37, 110 00	10 154	2 828	56	23 183	5 490	12 982
Total		**85 264**	**17 080**				**102 344**

**) - Information was not available as of the balance sheet date*
- Equity and profit or loss of certain entities are preliminary unaudited figures.

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 60.50 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 of CZK 53,350 thousand to CZK 55,350 thousand. Through a non-cash investment of CZK 35,840 thousand, ČD Cargo, a.s. increased its equity investment to 66.94% (ie CZK 37,050 thousand). As of 31 December 2012, the intent to increase the share capital by CZK 16,200 thousand from CZK 55,350 thousand to the final balance of CZK 71,550 thousand was recorded in the Register of Companies. The General Meeting decided on this increase on 8 October 2012. 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 started its business activities in the second quarter of 2011.

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, a.s. purchased a 34% equity investment in ČD Logistics, a.s. (CZK 3,400 thousand). On 2 December 2009, ČD Cargo, a.s. purchased a 22% equity share in ČD Logistics, a.s. (CZK 2,200 thousand). Currently, ČD Cargo, a.s. holds a 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. CD Cargo, a.s. obtained the equity investment amounting to 51% (ie CZK 2,040 thousand) from České dráhy, a.s. as a capital investment upon its formation. 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, a.s. is the sole owner. The company is engaged in mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., general representation, and comprehensive information services for customers of ČD Cargo, a.s..

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, a.s., 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, a.s. 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, a.s. 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 upon formation amounted to USD 100 thousand. The equity investment of ČD Cargo, a.s. was 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 entity never commenced its business activities. The aggregate accumulated loss from the formation of the entity to 31 December 2011 amounted to USD (88,001). The general meeting held on 16 March 2011 approved a decrease in the share capital (from USD 100,000) to the statutory defined minimum of USD 20,000 and the general meeting held on 30 March 2012 decided to wind up the entity with liquidation as of 1 April 2012. During the year ended 31 December 2012, the liquidation of the entity was completed and the entity was removed from the Belarusian Register of Companies on 24 September 2012.

AUTO TERMINAL NYMBURK, S.R.O.
The company was formed on 30 August 2012 through a cash investment and recorded in the Register of Companies on 24 October 2012. The share capital is CZK 200 thousand. The sole owner is ČD Cargo, a.s. The company is engaged in production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act (mediation of trade and services, shipping and customs brokerage, storage, goods packaging, cargo handling and technical services in transportation).

4.3.2. Equity Investments in Associates

Year Ended 31 December 2012

Name of the entity (CZK '000)	Registered office	Valuation at 31 Dec 2011	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2012
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, 110 00	4 420	94	30	15 047	311	4 514
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, 702 00	34 243	3 712	20	189 774	38 756	37 955
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, 1112, 152 00	4 539	5 154	50	19 387	11 240	9 693
Total		**43 202**	**8 960**				**52 162**

- Equity and profit or loss of certain entities are preliminary unaudited figures

Year Ended 31 December 2011

Name of the entity (CZK '000)	Registered office	Valuation at 31 Dec 2010	Revaluation	Ownership percentage	Equity	Profit or loss	Valuation at 31 Dec 2011
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, 110 00	2 543	1 877	30	14 735	2 508	4 420
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, 702 00	29 000	5 243	20	171 216	33 707	34 243
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, 1112, 152 00	0	4 539	50	9 077	11 224	4 539
Celkem		**31 543**	**11 659**				**43 202**

- Equity and profit or loss of certain entities are preliminary unaudited figures

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, a.s. 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, a.s. 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, a.s. 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.

4.3.3. Loans and Borrowings to Associates

In the past, ČD Cargo concluded a loan contract and a 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 on 31 December 2012

LOAN (CZK '000)	Long-term portion of the loan	Short-term portion of the loan	Total
Total	**7 452**	**5 209**	**12 661**
Principal	7 200	4 800	12 000
Interest	252	409	661
RAILWAY SIDING	**Long-term portion of the receivable**	**Short-term portion of the receivable**	**Total**
Total	**3 211**	**3 366**	**6 577**
Principal	3 095	3 095	6 190
Interest	116	271	387

The long-term portion of the unpaid loan including interest as of 31 December 2012 of CZK 7,452 thousand is presented in financial statements line B.III.4. "Loans and borrowings – controlled or controlling entity". The short-term portion of CZK 5,209 thousand is presented in line C.III.3. "Receivables – substantial influence".

The long-term receivable arising from the sale of a railway siding including the interest of CZK 3,211 thousand is presented in line C.II.3. "Receivables – substantial influence". The short-term portion of CZK 3,366 thousand is presented in line C.III.3. "Receivables – substantial influence".

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Balance on 31 December 2011

LOAN (CZK '000)	Long-term portion of the loan	Short-term portion of the loan	Total
Total	**12 661**	**5 081**	**17 742**
Principal	12 000	4 587	16 587
Interest	661	494	1 155
RAILWAY SIDING	**Long-term portion of the receivable**	**Short-term portion of the receivable**	**Total**
Total	**6 578**	**3 521**	**10 099**
Principal	6 191	3 096	9 287
Interest	387	425	812

The long-term portion of the unpaid loan including interest as of 31 December 2011 of CZK 12,661 thousand is presented in financial statements line B.III.4. "Loans and borrowings – controlled or controlling entity". The short-term portion of CZK 5,081 thousand is presented in line C.III.3. "Receivables – substantial influence".

The long-term receivable from the sale of a railway siding including the interest as of 31 December 2011 of CZK 6,578 thousand is presented under C. II. 3. "Receivables – substantial influence". The short-term portion of CZK 3,521 thousand is presented under C. III. 3. "Receivables – substantial influence".

4.4. INVENTORY

(CZK '000)	31 Dec 2012	31 Dec 2011
Spare parts and other components for rail vehicles and locomotives	50 901	46 883
Other spare parts and other low value components	65 799	66 690
Fuels and other crude oil based products	4 035	3 345
Rail switches, turntables, traversers and components for the track superstructure	900	900
Work shoes and protective supplies	731	553
Other	9 446	9 358
Total acquisition cost	**131 812**	**127 729**
Provisions	0	0
Net balance	**131 812**	**127 729**

In the years ended 31 December 2012 and 2011, the Company recognised no provisions pursuant to the inventory count.

4.5. SHORT-TERM RECEIVABLES

4.5.1. Trade Receivables

Receivables (CZK '000)	Total	Before due date	Past due date	0-91	92-180	181-365	366-730	over 730
31 Dec 2012 gross	1 699 335	1 463 087	236 248	62 160	14 301	15 857	19 903	124 027
31 Dec 2012 provisions	-113 107	0	-113 107	-4 775	-6 096	-4 118	-9 729	-88 389
31 Dec 2012 net	1 586 228	1 463 087	123 141	57 385	8 205	11 739	10 174	35 638
31 Dec 2011 gross	1 684 353	1 484 036	200 317	44 754	9 141	6 918	16 559	122 945
31 Dec 2011 provisions	-79 592	0	-79 592	-2 041	-1 402	-1 244	-4 970	-69 935
31 Dec 2011 net	1 604 761	1 484 036	120 725	42 713	7 739	5 674	11 589	53 010

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 the foreign railway organisations specifically in the form of mutual offsets and repayment schedules.

Provisions against receivables as of 31 December 2012 are recognised in line with the accounting policies described in detail in Point 3.6.

4.5.2. Short-Term Intercompany Receivables

■ **Short-term trade receivables**

Name of the entity (CZK '000)	Balance on 31 Dec 2012	Balance on 31 Dec 2011
DPOV, a.s.	15 997	11 610
ČD, a.s.	8 890	8 196
Výzkumný Ústav Železniční, a.s.	1 272	371
ČD – Telematika, a.s.	85	21
ČD – Informační Systémy, a.s.	0	0
Dopravní vzdělávací institut, a.s.	0	0
RAILREKLAM, spol. s r.o.	0	0
ČD Reality, a.s.	0	0
RailReal, a.s.	0	0
ČD Travel, s.r.o.	0	0
Smíchov Station Development, a.s.	0	0
Žižkov Station Development, a.s.	0	0
Centrum Holešovice, a.s.	0	0
ČD Logistics, a.s.	87 089	107 190
RAILLEX, a.s.	5 039	2 775
BOHEMIAKOMBI, spol. s r.o.	1 131	1 299
Ostravská dopravní společnost, a.s.	27 305	5 465
CD Generalvertretung GmbH	17 350	12 267
CD Generalvertretung Wien GmbH	0	0
Koleje Czeskie Sp. z o. o.	28 867	18 269
Generálne zastúpenie ČD Cargo, s.r.o.	72	0
ČD-DUSS Terminál, a.s.	0	0
Terminál Brno, a.s.	78	0
Total short-term intercompany receivables	**193 175**	**167 463**

4.6. ESTIMATED RECEIVABLES

As of 31 December 2012 and 31 December 2011, the Company recognised estimated receivables as follows:

(CZK '000)	31 Dec 2012	31 Dec 2011
Income from international transportation of wagon loads - export	14 324	18 253
Income from international transportation of wagon loads - import	19 912	23 153
Income from international transportation of wagon loads - transit	45 506	44 449
Income from local transportation of wagon loads	0	11
Income from border services	38 602	39 212
Estimated receivables - ČD, a.s.	4	27
Other estimated receivables (lease and repairs of wagons, financial bonuses, damages)	99 206	139 273
Total estimated receivables	**217 554**	**264 378**

4.7. DEFERRED EXPENSES

Deferred expenses amounted to CZK 412,568 thousand and CZK 347,162 thousand as of 31 December 2012 and 31 December 2011, respectively. As of 31 December 2012, this amount predominantly included finance lease instalments of CZK 312,264 thousand. As of 31 December 2011, these payments amounted to CZK 246,540 thousand.

4.8. EQUITY

4.8.1. Share Capital

As of 31 December 2009, the share capital of the Company was composed of the non-cash investment of a business part of České dráhy, a.s. as the sole shareholder and amounted to CZK 8,800,000 thousand.

On 2 June 2009, 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. As of the balance sheet date, on 31 December 2012, the Company records the share capital of CZK 8,494,000 thousand paid in full.

4.8.2. Changes in Equity

Changes in equity are presented in the Statement of Changes of Equity as of 31 December 2012.

4.9. GAINS AND LOSSES FROM THE REVALUATION OF ASSETS AND LIABILITIES

(CZK '000)	31 Dec 2012	31 Dec 2011
Valuation of derivatives hedging future cash flows	-40 942	-36 738
Valuation of an equity investment accounted for using the equity method of accounting	83 182	57 393
Deferred tax on derivatives	7 779	6 980
Total	**50 019**	**27 635**

4.10. RESERVES

(CZK '000)	Balance on 31 Dec 2010	Recognition	Use	Balance on 31 Dec 2011	Recognition	Use	Balance on 31 Dec 2012
Reserve for complaints	19 165	17 587	19 165	17 587	44 962	17 587	44 962
Reserve for legal disputes	7 198	18 065	8 370	16 893	52 732	16 252	53 373
Reserve for outstanding vacation days	27 582	25 827	27 582	25 827	27 676	25 827	27 676
Reserve for business risks	240 000	150 000	0	390 000	149 988	0	539 988
Reserve for restructuring	0	110 365	0	110 365	535 000	110 365	535 000
Reserve for employee benefits	0	105 800	0	105 800	55 253	52 550	108 503
Reserve for the fee for the use of trademark	0	95 000	0	95 000	0	95 000	0
Other	0	6 410	0	6 410	11 705	7 570	10 545
Total	**293 945**	**529 054**	**55 117**	**767 882**	**877 316**	**325 151**	**1 320 047**

After having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management has decided to increase the amount of the non-tax deductible reserve by CZK 149,988 thousand to the total amount of CZK 539,988 thousand to cover potential expenses relating to potential risks for business transactions.

As of 31 December 2012, management has decided to make organisational changes pursuant to the prepared restructuring plan, the principal features of which were communicated within the Company. The future cash outflows relating to the restructuring were estimated at CZK 535,000 thousand in the plan. The restructuring involves the inspection of the rolling stock and the scrapping of redundant wagons and traction vehicles as described in Point 4.2.

The reserve for employee benefits includes the claim of employees for a financial contribution for life jubilees, financial contribution upon retirement and payment of treatment costs including the salary refund in wellness stays. The amount of the reserve was calculated at CZK 108,503 thousand using an actuarial model. For details on this model, refer to Point 3.

4.11. LONG-TERM PAYABLES

(CZK '000)	31 Dec 2012	31 Dec 2011
Long-term prepayments received	3 803	41 915
Issued bonds	2 500 000	2 000 000
Long-term supplier payables	199 983	510 108
Derivative financial instruments	71 144	31 749
Total	**2 774 930**	**2 583 772**

On 4 May 2011, through its Resolution No. 2011/4833/570, ref. no. Sp/2011/50/572 the Czech National Bank approved the bond programme of ČD Cargo, a.s. The maximum volume of outstanding bonds issued under the bond programme may amount up to CZK 6,000 million with the bonds programme period of 10 years. The above resolution of the Czech National Bank took effect on 5 May 2011.

The following bonds issues were issued under the bond programme in 2011 and 2012:

Manager	Komerční banka, a.s.
Date of issue	20 June 2011
Total nominal value	CZK 1,000,000 000
Interest rate	Fixed interest income
Interest rate (1-3 years); coupon	3.183 % p.a.
Interest rate (4-5 years); coupon	5 % p.a.
Issue rate	98.025%
Payment of interest income	annually retrospectively
Date of the payment of interest	20 June each year
Date of the final maturity	20 June 2016
Date of the final maturity (exercise of the put option)	20 June 2014

Manager	Československá obchodní banka, a.s.
Date of issue	22 Dec 2011
Total nominal value	CZK 500,000,000
Nominal value of the bond	CZK 1
Interest rate	Variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all the following periods	1.64 % p.a.
Mark-up	1.30 % p.a.
Issue rate	97.464%
Payment of interest income	Bi-annually retrospectively
Date of the interest payment	22 June and 22 Dec each year
Date of final maturity	22 Dec 2015

Manager	Raiffeisenbank, a.s.
Date of issue	21 Dec 2011
Total nominal value	CZK 500,000,000
Interest rate; coupon	Fixed interest income, 3.8 % p.a.
Issue rate	99.941%
Payment of interest income	annually retrospectively
Date of the interest payment	21 Dec each year
Date of final maturity	21 Dec 2016

Manager	Československá obchodní banka, a.s.
Date of issue	12 January 2012
Total nominal value	CZK 200,000,000
Nominal value of the bond	CZK 1
Interest rate	Variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all the following periods	1.64 % p.a.
Mark-up	1.30 % p.a.
Issue rate	97.506%
Payment of interest income	Bi-annually retrospectively
Date of the interest payment	22 June and 22 Dec each year
Date of final maturity	22 Dec 2015

Manager	Československá obchodní banka, a.s.
Date of issue	19 January 2012
Total nominal value	CZK 300,000,000
Nominal value of the bond	CZK 1
Interest rate	Variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all the following periods	1.64 % p.a.
Mark-up	1.30 % p.a.
Issue rate	97.518%
Payment of interest income	Bi-annually retrospectively
Date of the interest payment	22 June and 22 Dec each year
Date of final maturity	22 Dec 2015

4.12. SHORT-TERM PAYABLES

4.12.1. Aging of Short-Term Trade Payables

Payables (CZK '000)	Total	Before due date	Past due date	0-90	91-180	181-365	366-730	over 730
31 Dec 2012	2 107 805	2 085 780	22 025	14 461	18	7 546	0	0
31 Dec 2011	1 837 632	1 785 396	52 236	51 493	559	184	0	0

4.12.2. Intercompany Payables

- **Short-term trade payables**

Name of the entity (CZK '000)	Balance on 31 Dec 2012	Balance on 31 Dec 2011
České dráhy a.s.	270 121	248 647
ČD – Telematika, a.s.	6 317	12 631
ČD - Informační Systémy, a.s.	51 239	47 554
DPOV, a.s.	58 258	92 949
ČD travel, s.r.o.	2 981	3 504
Dopravní vzdělávací institut, a.s.	2 457	2 026
RAILREKLAM, spol. s r.o.	0	0
Výzkumný Ústav Železniční, a.s.	0	0
ČD Reality, a.s.	0	0
RailReal, a.s.	0	0
Smíchov Station Development, a.s.	0	0
Žižkov Station Development, a.s.	0	0
Centrum Holešovice, a.s.	0	0
Jídelní a lůžkové vozy, a.s.	185	139
ČD Logistics, a.s.	4 001	997
RAILLEX, a.s.	0	0
BOHEMIAKOMBI, spol. s r.o.	0	0
Ostravská dopravní společnost, a.s.	7 811	9 798
CD Generalvertretung GmbH	2 444	34 204
CD Generalvertretung Wien GmbH	0	7 916
Koleje Czeskie Sp. z o.o.	8 858	6 038
Generálne zastúpenie ČD Cargo, s.r.o.	2 605	13 656
Terminal Brno, a.s.	957	919
ČD-DUSS Terminal, a.s.	0	0
Total short-term payables	**418 234**	**480 978**

4.12.3. Other Payables

As of 31 December 2012, other payables primarily include a short-term portion of supplier payables of CZK 429,962 thousand and short-term derivative financial instruments of CZK 28,954 thousand. As of 31 December 2011, short-term supplier payables amounted to CZK 687,207 thousand and short-term derivative financial instruments amounted to CZK 6,209 thousand.

4.13. ESTIMATED PAYABLES

As of 31 December 2012 and 31 December 2011, the Company recognised estimated payables as follows:

(CZK '000)	31 Dec 2012	31 Dec 2011
Unbilled non-investment supplies	108 113	144 833
Unbilled investment supplies	184	0
Expenses for border services	36 373	35 140
Estimated payables - ČD-T, a.s.	6	0
Estimated payables - ČD, a.s.	30 960	39 077
Estimated payables – CD Generalvertretung GmbH	35 525	28 837
Other estimated payables (predominantly repairs and lease of wagons)	120 438	77 387
Total estimated payables	**331 599**	**325 274**

4.14. BANK LOANS

4.14.1. Long-Term Bank Loans

The Company used no long-term loans as of 31 December 2011 and 2012.

4.14.2. Short-Term Bank Loans

- **Balance on 31 December 2012:**

Bank (CZK '000)	Loan currency	Balance on 31 Dec 2012	Interest rate	Form of collateral
Československá obchodní banka, a.s.	CZK	183 294	O/N Pribor+0.80 p.a.	No collateral
Komerční banka, a.s. - revolving	CZK	0	O/N Pribor+0.78 p.a.	No collateral
Komerční banka, a.s.	CZK	0	O/N Pribor+0.98 p.a.	No collateral
Všeobecná úvěrová banka, a.s.	CZK	333 373	O/N Pribor+0.65 p.a.	No collateral
ING Bank N. V.	CZK	158 944	O/N Pribor+0.38 p.a.	No collateral
Citi Bank Europe, plc	CZK	183 894	O/N Pribor+0.45 p.a.	No collateral
Total		**859 505**		

- **Balance on 31 December 2011:**

Bank (CZK '000)	Loan currency	Balance on 31 Dec 2011	Interest rate	Form of collateral
Československá obchodní banka, a.s.	CZK	0	O/N Pribor+0.80 p.a.	No collateral
Komerční banka, a.s. - revolving	CZK	0	O/N Pribor+0.78 p.a.	No collateral
Komerční banka, a.s.	CZK	0	O/N Pribor+0.98 p.a.	No collateral
Všeobecná úvěrová banka, a.s.	CZK	113 089	O/N Pribor+0.65 p.a.	No collateral
ING Bank N. V.	CZK	107 187	O/N Pribor+0.38 p.a.	No collateral
Citi Bank Europe, plc	CZK	129 433	O/N Pribor+0.45 p.a.	No collateral
Total		**349 709**		

4.14.3. Short-Term Financial Borrowings

In the years ended 31 December 2011 and 2012, the Companyused no debt bills.

4.14.4. Strategy for Funding the Company's Subsequent Years

Lease-back
In 2012, the Company proceeded with the first tranche of the lease-back of modernised 363.5 series traction vehicles. For 2013, the Company is planning to use the lease-back for the funding of the modernisation of other 20 modernised locomotives from the 163 series to the 363.5 series with the acquisition cost of CZK 1,197 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
The Company has the possibility to use the bill of exchange programme as and when needed. This programme is currently not used.

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, three issues were gradually placed up with the total nominal amount of CZK 2 billion. In 2012, another two issues were placed up with the total nominal amount of CZK 500 million. 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 of arranging for leases to become an achievable form of long-term funding in 2013.

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).

4.15. DERIVATIVE FINANCIAL INSTRUMENTS

(CZK '000)	31 Dec 2012		
	Positive fair value	Negative fair value	Total
Derivatives designated as fair value hedges	0	-41 634	-41 634
Derivatives designated as cash flow hedges	17 523	-58 465	-40 942
Total	**17 523**	**-100 099**	**-82 576**

(CZK '000)	31 Dec 2011		
	Positive fair value	Negative fair value	Total
Derivatives designated as fair value hedges	2 975	-1 219	1 756
Derivatives designated as cash flow hedges	0	-36 738	-36 718
Total	**2 975**	**-37 957**	**-34 982**

To hedge foreign exchange rate losses arising from the strengthening of the Czech crown in 2011 and 2012, the Company used the following derivative transactions:

- In December 2011, hedging using the currency forward in cooperation with three banks of EUR 3 million per month from January 2012 to December 2012 on the level of the hedged foreign exchange rate of CZK 25.76/EUR;
- In February 2012, the Company subsequently used another hedge of EUR 1 million per month from March 2012 to February 2013 on the level of the hedged foreign exchange rate of CZK 25.30/EUR;
- In May 2012, the Company subsequently used another hedge of EUR 1 million per month from May 2012 to April 2013 on the level of the hedged foreign exchange rate of CZK 25.30/EUR;
- In May 2012, the Company subsequently used another hedge of EUR 1 million per month from June 2012 to May 2013 on the level of the hedged foreign exchange rate of CZK 25.60 EUR;
- In June 2012 the Company used another hedge of EUR 1 million per month from January 2013 to December 2013 on the level of the hedged foreign exchange rate of CZK 25.90/EUR; and
- In November 2012, the Company used a hedge in the form of a collar (CZK 25.17 – 26.20/EUR) of EUR 1 million per month from January 2013 to December 2013.

In 2011, the Company additionally hedged interest rates on transactions with a variable interest rate, specifically as follows:

- 30 lease transactions divided into three individual blocks, with ten repayment schedules. The hedging was carried out with two banks in the IRS form, in three individual tranches. The hedging is effective from 2012 to 2020 (derivatives hedging cash flows);
- Three lease transactions. The hedging was carried out with one bank in the form of a collar, in three individual tranches. The hedging is effective from 2013 to 2019 (trading derivatives); and
- Issue of bonds. The hedging was carried out with one bank in the IRS form, in one tranche. The hedging is effective from mid-2012 through the end of 2015 (trading derivatives).

In 2012, the Company hedged the price of crude oil using the following hedging transactions:

- In May 2012, hedging using four transactions in the aggregate amount 400 mt/per month from June 2012 to May 2013. The hedged fixed price of crude oil is for each 100 mt/per month in individual transactions determined to a different level, specifically USD 924.5/mt, USD 903/mt, USD 910/mt, USD 900/mt;
- In June 2012, the Company hedged another 100 mt/per month from July 2012 to June 2013. The hedged fixed price of the crude oil in this case is USD 870 USD/mt;
- In December 2012, the Company used a hedge of 100 mt/per month from January 2013 to December 2014. The hedged fixed price of crude oil is CZK 17,800/mt; and
- In December 2012, the Company hedged another volume of 100 mt/per month from June 2013 to December 2014. The hedged fixed price of crude oil is CZK 17,750/ mt.

4.16. INCOME TAXATION

4.16.1. Deferred Tax
The deferred tax asset/ (liability) is analysed as follows:

Deferred Tax Arising from

(CZK '000)	Balance on 31 Dec 2012	Balance on 31 Dec 2011
Net book value of fixed assets	-711 595	-708 564
of which the impact of components	-168 588	-159 473
Provisions against fixed assets	10 954	21 133
Contractual fines and penalty	-6 614	-13 775
Receivables	7 693	5 015
Reserves	250 809	145 708
Tax loss	7 096	20 906
Derivatives	7 779	6 980
Total	**-433 878**	**-522 597**

Analysis of movements	(CZK '000)
1 Jan 2012	**522 597**
Current changes charged against the profit and loss account	-87 920
From current activities	-27 151
From extraordinary activities	-60 769
Total charges against the profit and loss account	**-87 920**
Current changes recognised in equity	-799
Total recognised in equity	**-799**
31 Dec 2012	**433 878**

Analysis of movements	(CZK '000)
1. 1. 2011	**421 879**
Current changes charged against the profit and loss account	79 703
From current activities	120 584
From extraordinary activities	-40 881
Total charges against the profit and loss account	**79 703**
Current changes recognised in equity	21 015
Total recognised in equity	**21 015**
31 Dec 2011	**522 597**

4.17. DUE PAYABLES ARISING FROM SOCIAL SECURITY AND HEALTH INSURANCE CONTRIBUTIONS AND TAX ARREARS
Výše The balance of due payables arising from social security contributions and contributions to the State employment policy was CZK 82,402 thousand and CZK 83,200 thousand as of 31 December 2012 and 31 December 2011, respectively.

The balances of due payables arising from public health insurance contributions were CZK 35,741 thousand and CZK 35,733 thousand as of 31 December 2012 and 31 December 2011, respectively.

The Company records no tax arrears to local taxation authorities.

4.18. DETAILS OF INCOME BY PRINCIPAL ACTIVITY

Year Ended 31 December 2012

(CZK '000)	In-country	Cross-border	Total
Sales of freight transportation	7 304 254	4 894 340	12 198 594
Other sales of freight transportation	794 123	897 667	1 691 790
Sales of other services	0	37 704	37 704
Total	**8 098 377**	**5 829 711**	**13 928 088**

Year Ended 31 December 2011

(CZK '000)	In-country	Cross-border	Total
Sales of freight transportation	6 995 473	5 431 867	12 427 340
Other sales of freight transportation	921 196	894 120	1 815 316
Sales of other services	0	161 361	161 361
Total	**7 916 669**	**6 487 348**	**14 404 017**

The classification to cross-border and in-country sales was made reflecting outputs. 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.

4.18.1. Income Generated with Related Parties

Year Ended 31 December 2012

Entity (CZK '000)	Relation to the Company	Tangible FA	Material	Services	Other income	Fin. income	Total
ČD, a.s.	Parent	0	370	23 987	4 914	0	29 271
ČD - Telematika, a.s.	Fellow subsidiary	0	0	175	0	0	175
ČD - Informační Systémy, a.s.	Fellow subsidiary	0	0	0	0	0	0
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	0	4 725	0	0	4 725
DPOV, a.s.	Fellow subsidiary	0	75	16 623	379	0	17 077
ČD Generalvertretung GmbH	Subsidiary	0	0	248 414	0	1 809	250 223
ČD Generalvertretung Wien GmbH	Subsidiary	0	0	22	0	0	22
Koleje Czeskie Sp. z o.o.	Subsidiary	0	0	125 285	0	1 059	126 344
Generálne zastúpenie ČD Cargo, s.r.o.	Subsidiary	0	0	669	0	0	669
ČD Logistics, a.s.	Subsidiary	0	0	575 601	34	338	575 973
ČD-DUSS Terminál, a.s.	Subsidiary	0	0	189	0	0	189
Terminál Brno, a.s.	Subsidiary	0	2	285	0	0	287
Dopravní vzdělávací institut, a.s.	Fellow subsidiary	0	0	0	0	0	0
ČD Travel, s.r.o.	Fellow subsidiary	0	0	0	0	0	0
Smíchov Station Development, a.s.	Fellow subsidiary	0	0	0	0	0	0
Žižkov Station Development, a.s.	Fellow subsidiary	0	0	0	0	0	0
Centrum Holešovice, a.s.	Fellow subsidiary	0	0	0	0	0	0
Celkem			**447**	**995 975**	**5 327**	**3 206**	**1 004 955**

Year Ended 31 December 2011

Entity (CZK '000)	Relation to the Company	Tangible FA	Services	Other income	Fin. income	Total
ČD, a.s.	Mateřská společnost	87	1 277	25 630	2 728	29 722
ČD - Telematika, a.s.	Sesterská společnost	0	0	112	0	112
ČD - Informační Systémy, a.s.	Sesterská společnost	0	0	0	0	0
Výzkumný Ústav Železniční, a.s.	Sesterská společnost	0	0	4 200	0	4 200
DPOV, a.s.	Sesterská společnost	0	44	22 405	287	22 736
ČD Generalvertretung GmbH	Dceřiná společnost	0	0	167 978	1	167 979
ČD Generalvertretung Wien GmbH	Dceřiná společnost	0	0	90	0	90
Koleje Czeskie Sp. z o.o.	Dceřiná společnost	6 615	0	148 422	61	155 098
Generálne zastúpenie ČD Cargo, s.r.o.	Dceřiná společnost	0	0	1 991	0	1 991
ČD Logistics, a.s.	Dceřiná společnost	20	0	591 821	324	592 165
Smíchov Station Development, a.s.	Sesterská společnost	0	0	0	0	0
Žižkov Station Development, a.s.	Sesterská společnost	0	0	0	0	0
Centrum Holešovice, a.s.	Sesterská společnost	0	0	0	0	0
Celkem		**6 722**	**1 321**	**962 649**	**3 401**	**974 093**

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

4.18.2. Purchases from Related Parties

Year Ended 31 December 2012

** "Other" includes certain companies that are not included in the České dráhy consolidation group.*

Entity (CZK '000)	Relation to the Company	Assets	Material	Services	Other expenses	Total
ČD - Telematika, a.s.	Fellow subsidiary	84 038	190	17 505	0	101 733
ČD - Informační Systémy, a.s.	Fellow subsidiary	33 722	1 761	104 940	0	140 423
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	210	0	30	0	240
DPOV, a.s.	Fellow subsidiary	94 809	72	26 830	0	121 711
ČD, a.s.	Parent	416	693 018	1 420 541	16 660	2 130 635
ČD Generalvertretung GmbH	Subsidiary	0	0	43 657	0	43 657
ČD Generalvertretung Wien GmbH	Subsidiary	0	0	8 982	0	8 982
Koleje Czeskie Sp. z o.o.	Subsidiary	310	0	215 475	0	215 785
Generálne zastúpenie ČD Cargo, s.r.o.	Subsidiary	0	0	41 334	0	41 334
ČD Logistics, a.s.	Subsidiary	0	643	16 557	0	17 200
ČD-DUSS Terminal, a.s.	Subsidiary	0	0	0	0	0
Terminal Brno, a.s.	Subsidiary	0	0	8 947	0	8 947
RAILLEX, a.s.	Subsidiary	0	0	0	156	156
BOHEMIAKOMBI, spol. s r.o.	Subsidiary	0	0	0	0	0
Ostravská dopravní společnost, a.s.	Subsidiary	0	0	49 745	0	49 745
Smíchov Station Development, a.s.	Fellow subsidiary	0	0	0	0	0
Žižkov Station Development, a.s.	Fellow subsidiary	0	0	0	0	0
Centrum Holešovice, a.s.	Fellow subsidiary	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	Fellow subsidiary	0	0	18 614	0	18 614
ČD Travel, s.r.o.	Fellow subsidiary	0	0	25 343	5	25 348
JLV, a.s.	Fellow subsidiary	0	0	1 543	0	1 543
Masaryk Station Development, a.s.	Fellow subsidiary	0	0	0	0	0
Other*		0	0	516	0	516
Total		**213 505**	**695 684**	**2 000 559**	**16 821**	**2 926 569**

Year Ended 31 December 2011

** "Other" includes certain companies that are not included in the České dráhy consolidation group.*

Entity (CZK '000)	Relation to the Company	Assets	Material	Services	Other expenses	Total
ČD - Telematika, a.s.	Fellow subsidiary	4 451	913	44 545	0	49 909
ČD - Informační Systémy, a.s.	Fellow subsidiary	11 708	1 260	81 151	0	94 119
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	645	0	3	0	648
DPOV, a.s.	Fellow subsidiary	138 540	709	40 271	0	179 520
ČD, a.s.	Parent	758	748 912	1 357 107	703	2 107 480
ČD Generalvertretung GmbH	Subsidiary	0	0	35 255	0	35 255
ČD Generalvertretung Wien GmbH	Subsidiary	0	0	20 849	0	20 849
Koleje Czeskie Sp. z o.o.	Subsidiary	878	0	15 541	0	16 419
Generálne zastúpenie ČD Cargo, s.r.o.	Subsidiary	0	0	18 476	0	18 476
ČD Logistics, a.s.	Subsidiary	0	852	3 658	0	4 510
Smíchov Station Development, a.s.	Fellow subsidiary	0	0	0	0	0
Žižkov Station Development, a.s.	Fellow subsidiary	0	0	0	0	0
Centrum Holešovice, a.s.	Fellow subsidiary	0	0	0	0	0
Other*		0	2	42 683	0	42 685
Total		**156 980**	**752 648**	**1 659 539**	**703**	**2 569 870**

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

Sales

In the year ended 31 December 2012, the Company sold no tangible, intangible or financial assets to related parties.

In the year ended 31 December 2011, the Company sold tangible fixed assets to České dráhy, a.s. in the amount of CZK 87 thousand and to Koleje Czeskie, Sp. z o. o. in the amount of CZK 6,615 thousand and to ČD Logistics, a. s. in the amount of CZK 20 thousand.

Purchases

Year Ended 31 December 2012

Entity (CZK '000)	Relation to the Company	Intangible FA	Tangible FA	Total
ČD - Telematika, a.s.	Fellow subsidiary	0	84 038	84 038
ČD - Informační Systémy, a.s.	Fellow subsidiary	33 722	0	33 722
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	210	210
DPOV, a.s.	Fellow subsidiary	0	94 809	94 809
ČD, a.s.	Parent	406	10	416
ČD Generalvertretung GmbH	Subsidiary	0	0	0
ČD Generalvertretung Wien GmbH	Subsidiary	0	0	0
Koleje Czeskie Sp. z o.o.	Subsidiary	0	310	310
Generálne zastúpenie ČD Cargo, s.r.o.	Subsidiary	0	0	0
ČD Logistics, a.s.	Subsidiary	0	0	0
ČD-DUSS Terminal, a.s.	Subsidiary	0	0	0
Terminal Brno, a.s.	Subsidiary	0	0	0
RAILLEX, a.s.	Subsidiary	0	0	0
BOHEMIAKOMBI, spol. s r.o.	Subsidiary	0	0	0
Ostravská dopravní společnost, a.s.	Subsidiary	0	0	0
Smíchov Station Development, a.s.	Fellow subsidiary	0	0	0
Žižkov Station Development, a.s.	Fellow subsidiary	0	0	0
Centrum Holešovice, a.s.	Fellow subsidiary	0	0	0
Dopravní vzdělávací institut, a.s.	Fellow subsidiary	0	0	0
ČD Travel, s.r.o.	Fellow subsidiary	0	0	0
JLV, a.s.	Fellow subsidiary	0	0	0
Masaryk Station Development, a.s.	Fellow subsidiary	0	0	0
Total		**34 128**	**179 377**	**213 505**

Year Ended 31 December 2011

Entity (CZK '000)	Relation to the Company	Intangible FA	Tangible FA	Total
ČD - Telematika, a.s.	Fellow subsidiary	5	4 446	4 451
ČD - Informační Systémy, a.s.	Fellow subsidiary	11 708	0	11 708
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	645	645
DPOV, a.s.	Fellow subsidiary	0	138 540	138 540
ČD, a.s.	Parent	0	758	758
ČD Generalvertretung GmbH	Subsidiary	0	0	0
ČD Generalvertretung Wien GmbH	Subsidiary	0	0	0
Koleje Czeskie Sp. z o.o.	Subsidiary	0	878	878
Generálne zastúpenie ČD Cargo, s.r.o.	Subsidiary	0	0	0
ČD Logistics, a.s.	Subsidiary	0	0	0
Smíchov Station Development, a.s.	Fellow subsidiary	0	0	0
Žižkov Station Development, a.s.	Fellow subsidiary	0	0	0
Centrum Holešovice, a.s.	Fellow subsidiary	0	0	0
Total		**11 713**	**145 267**	**156 980**

4.19. CONSUMED PURCHASES

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Consumed material	423 838	423 661
Consumed energy	1 360 008	1 285 032
Consumed fuels	585 294	666 329
Total consumed purchases	**2 369 140**	**2 375 022**

Consumed energy in the year ended 31 December 2012 includes consumed traction energy purchased from České dráhy, a.s. in the amount of CZK 1,251,364 thousand.

Consumed energy in the year ended 31 December 2011 includes consumed traction energy purchased from České dráhy, a.s. in the amount of CZK 1,179,633 thousand.

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4.20. SERVICES

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Repairs and maintenance	445 366	280 525
Travel expenses	39 480	44 326
Representation costs	2 374	2 923
Telecommunication, data and postal services	139 474	142 423
Other rental	137 582	145 453
Use of the railway route, operations control	2 220 595	2 343 038
Lease for wagons	672 181	720 111
Lease for traction vehicles	21 686	2 148
Transportation fee	5 820	721 854
Costs of general representation	54 265	69 404
Lease	721 199	717 298
Border services	181 181	178 853
Promotion, advertising	68 109	79 067
Healthcare	32 638	31 809
Costs of purchased services	1 256 098	156 839
Other services	275 537	270 217
Total	**6 273 585**	**5 906 288**

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

4.21. DEPRECIATION OF INTANGIBLE AND TANGIBLE FIXED ASSETS

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Depreciation of intangible and tangible fixed assets	1 014 120	844 006
Amortisation of a positive valuation difference on acquired assets	1 565 747	374 094
Total depreciation	**2 579 867**	**1 218 100**

4.22. OTHER OPERATING INCOME

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Claims for damages	83 635	26 544
Subsidies – accompanying social programme	3	23 000
Gain of material	20 162	21 136
Sundry operating income	67 056	112 844
Total	**170 856**	**183 524**

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 traffic closures amounted to CZK 36,355 thousand and CZK 23,066 thousand in the years ended 31 December 2012 and 2011, respectively. The total income arising from the compensation for increased costs incurred due to closures of traffic amounted to CZK 186,355 thousand from 1 December 2007 to 31 December 2012.

4.23. OTHER OPERATING EXPENSES

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Uniforms and lump sum payments to employees	6 815	5 769
Insurance payments	47 475	49 281
Compensation of damage	32 415	57 661
Membership fees	18 964	1 899
Sundry operating expenses	16 373	16 223
Total	**122 042**	**130 833**

4.24. INCOME FROM NON-CURRENT FINANCIAL ASSETS

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Received dividends	36 114	15 850
Total	**36 114**	**15 850**

4.25. INTEREST INCOME

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Interest on current bank accounts	285	424
Interest taxed using a special tax rate	0	1
Premium from settled receivables and payables	448	0
Other interest received from other debtors	1 042	1 443
Total	**1 775**	**1 868**

4.26. OTHER FINANCIAL INCOME

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Foreign exchange rate gains	376 676	173 636
Total	**376 676**	**173 636**

4.27. OTHER FINANCIAL EXPENSES

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Foreign exchange rate losses	390 975	144 314
Sundry financial expenses	5 665	5 208
Total	**396 640**	**149 522**

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4.28. EXTRAORDINARY EXPENSES

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Recognition of the reserve for employee benefits	0	104 800
Recognition of the reserve for restructuring	535 000	110 366
Total	**535 000**	**215 166**

For detailed comments on the policy of recognising reserves – refer to Point 3.10. The recognition and use of the reserve for employee benefits for the year ended 31 December 2012 is reported in line G. 'Change in reserves and provisions relating to operating activities and complex deferred expenses'.

4.29. 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 2012:

	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	8 890	2 969 487	1 027 301	175 453	0	65 567	98 944	4 336 752
Managers	20	46 068	12 894	1 042	19 054	121	62	79 241
Total	**8 910**	**3 015 555**	**1 040 195**	**176 495**	**19 054**	**65 688**	**99 006**	**4 415 993**

** Social security and health insurance covered by the organization*
CLI = capital life insurance, CPI = capital pension insurance, SPI = supplementary pension insurance

The following table summarises the average number of the Company's employees and managers for the year ended 31 December 2011:

	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	9 187	3 028 361	1 039 684	118 403	0	67 462	100 592	4 354 502
Managers	19	47 592	12 766	374	15 908	303	74	77 017
Total	**9206**	**3 075 953**	**1 052 450**	**118 777**	**15 908**	**67 769**	**100 666**	**4 431 519**

** Social security and health insurance covered by the organization*
CLI = capital life insurance, CPI = capital pension insurance, SPI = supplementary pension insurance

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

5. Off Balance Sheet Commitments

5.1. BANK GUARANTEES PROVIDED

Bank guarantees as of 31 December 2012, issued by Komerční banka, a.s. from the liability limit of CZK 50 million.

List of active bank guarantees provided by ČD Cargo, a. s. as of 31 December 2012

In favour of	Type of guarantee	Amount	Currency	Until	Reason for the issuance of a bank guarantee
WestInvest Waterfront Towers, s.r.o., Jankovcova 1569/2c, 170 00 Prague 7, Holešovice, Corporate ID 26178338	Lease guarantee	227,267	EUR	30 Sept 2013	Bank guarantee for the fulfilment of all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
HYPARKOS, s.r.o., Škrétova 490/12, 120 00 Prague 2, Corporate ID 27626130	Lease guarantee	16,517,056	CZK	30 June 2013	Bank guarantee in the event that ČD Cargo does not comply with the obligations stipulated by the Contract for the Lease of Buildings and Land in the Logistics Centre in Lovosice.

5.2. BANK GUARANTEES RECEIVED

List of active bank guarantees received by ČD Cargo, a. s. as of 31 December 2012

Bank guarantee received from	Guarantee provider	Amount	Currency	Until	Reason for the issuance of a bank guarantee
ŠKODA TRANSPORTATION, a.s., corporate ID 62623753, with its registered office at Borská 2922/32, 301 00 Plzeň	Komerční banka, a.s.	179,550,000	CZK	31 Dec 2013	Bank guarantees arising from contract for work no. ŠT/03/018/08/SML dated 11 December 2008 for the „Modernisation of locomotives from 163 series to 363 series" project.
ŠKODA TRANSPORTATION, a.s., corporate ID 62623753, with its registered office at Borská 2922/32, 301 00 Plzeň	Československá obchodní banka, a.s.	179,550,000	CZK	31 March 2013	

6. Post Balance Sheet Events

On 7 March 2013, management of the Company approved the sale of 86 traction vehicles to the subsidiary Koleje Czeskie Sp. Z. o.o. The selling price of CZK 718,560 thousand was determined on the basis of expert appraisal no. 1409-7/2013 dated 13 February 2013 which was prepared by a court-appointed expert specialised in economics and mechanical engineering.

15 Separate Financial Statements (IFRS)

Separate Financial Statements for the Year Ended 31 December 2012

prepared under IFRS as adopted by the EU

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2012

(CZK '000)		31 Dec 2012	31 Dec 2011
Property, plant and equipment	14	14 628 914	13 837 016
Intangible assets	15	236 644	195 083
Investments in subsidiaries and associates	16	92 870	79 903
Trade receivables	18	3 211	6 577
Other financial assets	19	10 772	19 025
Other assets	20	90	141
Total non-current assets		**14 972 501**	**14 137 745**
Inventories	17	89 042	89 890
Trade receivables	18	1 755 060	1 788 187
Tax receivables	13	6 827	569
Other financial assets	19	96 090	119 893
Other assets	20	112 330	284 169
Cash and cash equivalents	28	158 065	92 525
Total current assets		**2 217 414**	**2 375 233**
TOTAL ASSETS		**17 189 915**	**16 512 978**
Share capital	21	8 494 000	8 494 000
Reserve and other funds	21	225 148	228 552
Accumulated loss		-3 555 743	-2 746 236
Total equity		**5 163 405**	**5 976 316**
Loans and borrowings	22	4 646 222	4 324 185
Deferred tax liability	13	267 827	86 961
Provisions	23	70 070	65 298
Other financial liabilities	25	243 014	479 740
Other liabilities	26	367 746	381 498
Total non-current payables		**5 594 879**	**5 337 682**
Trade payables	24	2 402 987	2 145 181
Loans and borrowings	22	1 605 285	925 154
Provisions	23	1 249 977	706 252
Other financial payables	25	508 724	753 079
Other payables	26	664 658	669 314
Total current payables		**6 431 631**	**5 198 980**
TOTAL LIABILITIES		**17 189 915**	**16 512 978**

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2012

(CZK '000)		Year ended 31 Dec 2012	Year ended 31 Dec 2011
CONTINUING OPERATIONS			
Revenue from principal operations*	5	13 415 264	13 766 563
Other operating income*	6	751 537	801 430
Purchased consumables and services	7	-7 683 887	-7 410 207
Employee benefit costs	8	-4 336 386	-4 384 313
Depreciation and amortisation	9	-1 870 498	-1 881 419
Other operating losses	10	-661 931	-606 738
Profit (loss) before interest and tax		**-385 901**	**285 316**
Financial expenses	11	-266 051	-300 044
Other gains	12	24 110	33 647
Profit (loss) before tax		**-627 842**	**18 919**
Income tax expense	13	-181 665	-82 165
Loss for the period from continuing operations		**-809 507**	**-63 246**
DISCONTINUED OPERATIONS			
Profit (loss) from discontinued operations		**0**	**0**
Loss for the year		**-809 507**	**-63 246**

** Restated figures as of 31 December 2011, refer to Point 2.17.*

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Loss for the year	-809 507	-63 246
Financial derivative instruments used in hedge accounting	-4 203	92 136
Relating deferred income tax	799	-13 383
Other comprehensive income (loss) for the year	-3 404	78 753
Total comprehensive income (loss) for the year	**-812 911**	**15 507**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(CZK '000)	Share capital	Reserve and other funds	Retained earnings	Total equity
Balance on 31 December 2010	**8 494 000**	**149 799**	**-2 682 990**	**5 960 809**
Loss for the period	0	0	-63 246	-63 246
Other comprehensive income for the year	0	78 753	0	78 753
Balance on 31 December 2011	**8 494 000**	**228 552**	**-2 746 236**	**5 976 316**
Loss for the period	0	0	-809 507	-809 507
Other comprehensive income for the year	0	-3 404	0	-3 404
Balance on 31 December 2012	**8 494 000**	**225 148**	**-3 555 743**	**5 163 405**

■ **CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012**

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year before tax	**-627 842**	**18 919**
Dividend income	-36 114	-15 850
Financial expenses	266 051	397 275
Profit (loss) from the sale and disposal of non-current assets	-32 525	-35 945
Depreciation and amortisation of non-current assets	1 870 498	1 865 490
Impairment of non-current assets	-47 369	106 346
Impairment of trade receivables	33 515	7 071
Foreign exchange rate gains (losses)	6 809	-16 102
Other	-12 557	4 287
Cash flow from operating activities before changes in working capital	**1 420 466**	**2 331 491**
Increase in trade receivables	-10 856	-122 202
Decrease (increase) in inventories	-1 571	4 777
Decrease (increase) in other assets	190 978	-148 207
Increase (decrease) in trade payables	567 694	-432 243
Increase in provisions	548 497	382 173
Decrease in other payables	-596 666	-22 069
Total changes in working capital	**698 076**	**-337 771**
Cash flows from operating activities	**2 118 542**	**1 993 720**
Interest paid	-147 702	-302 937
Income tax paid	-6 258	33 108
Net cash flow from operating activities	**1 964 582**	**1 723 891**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	-2 842 613	-1 441 447
Proceeds from the sale of property, plant and equipment	14 005	16 335
Costs of acquisition of intangible assets	-86 886	-66 090
Received interest	1 775	1 868
Received dividends	36 114	15 850
Net cash flows (used in) from investment activities	**-2 877 605**	**-1 473 484**
CASH FLOWS FROM FINANCING ACTIVITIES		
Use of loans and borrowings	3 755 361	3 282 912
Repayments of loans and borrowings	-2 776 798	-3 677 289
Net cash flow from financing activities	**978 563**	**-394 377**
Net increase in cash and cash equivalents	**65 540**	**-143 970**
Cash and cash equivalents at the beginning of the reporting period	92 525	236 495
Cash and cash equivalents at the end of the reporting period	**158 065**	**92 525**

1. General Information

1.1. FORMATION OF THE COMPANY

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 2012, the Company reported share capital of CZK 8,494,000 thousand which was fully paid in.

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

The financial statements were prepared as of 31 December 2012. The reporting period is the calendar year from 1 January 2012 to 31 December 2012.

1.2. PRINCIPAL OPERATIONS

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 into two principal segments:

- Transportation of complete trains; and
- Transportation of individual wagon loads.

The above segments are structured by the type of transportation as follows:

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

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

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

In terms of the volume of transportation, the Company is one of the ten most significant railway companies in Europe and the European Union.

1.3. 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.

1.4. 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 three-member Board of Directors; the supervisory body is the five-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.

The composition of Company's Bodies as of 31 December 2012:

Board of Directors

- Chairman: Petr Žaluda
- Member: Petr May
- Member: Vlastimil Chobot

On 24 April 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, decided to decrease the number of members of the Board of Directors from four to three members, recalled Jan Vlasák and Sonny Sonnberger as members of the Board of Directors and appointed Roman Vallovič a member of the Board of Directors with effect from 24 April 2012.

At its meeting held on 5 September 2012, the Board of Directors discussed the written announcement on the resignation of the member, Jiří Špička. His position of the member of the Board of Directors expired on 5 September 2012.

On 25 September 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Petr May as a member of the Board of Directors with effect from 25 September 2012.

On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Roman Vallovič as a member of the Board of Directors and appointed Petr Žaluda a member of the Board of Directors with effect from 2 October 2012.

Gustav Slamečka resigned from the position of a member of the Board of Directors by making a written announcement to the Board of Directors dated 8 October 2012. At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors discussed and acknowledged this announcement in its Resolution no. 1365/2012 and concurrently approved 8 October 2012 as the expiration date of his position.

At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors appointed Petr Žaluda as Chairman of the Board of Directors with effect from 9 October 2012 pursuant to Resolution No. 1366/2012.

On 9 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Vlastimil Chobot a member of the Board of Directors with effect from 9 October 2012.

Supervisory Board

- Member: Radek Nekola
- Member: Jindřich Nohal
- Member: Zdeněk Prosek
- Member: Milan Špaček
- Member: Miroslav Zámečník

On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Petr Žaluda as a member of the Supervisory Board.

Administration Board

- Chairman: Vít Veselý
- Member: Jaroslav Novák
- Member: Michal Zděnek

On 14 February 2012, Vít Veselý was appointed Chairman of the Administration Board on its 26th meeting.

On 24 July 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Jiří Franc and Jakub Kopřiva as members of the Administration Board and appointed Jaroslav Novák and Michal Zděnek members of the Supervisory Board.

Audit Committee

- Chairman: Oldřich Vojíř
- Member: Miroslav Zámečník
- Member: Libor Joukl

No changes were made in this body during the reporting period.

2. Significant Accounting Policies

2.1. STATEMENT OF COMPLIANCE

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

2.2. BASIS OF PREPARATION

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

Investments in subsidiaries and associates that are not classified as held for sale are carried at cost in the separate financial statements. As such, the financial statements present the Company's financial position regardless of the results of subsidiaries and other group entities.

Unless stated otherwise, all figures are stated in Czech crowns.

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

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

Sales of services are recognised when services are rendered to counterparties. Revenues related to transportation services are recognised in the period in which the services are provided by reference to the stage of completion of the service contract.

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

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

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

In all finance leases, the Company acts as a lessee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.9. TAXATION
The income tax includes current tax payable and deferred tax.

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

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

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

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

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

2.10. PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are carried at cost reduced by accumulated losses from impairment, and by accumulated depreciation in respect of property and equipment. Land is not depreciated.

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

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

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

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

The Company capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs – major, significant and overhaul).

2.11. INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

The financial statements thus present the Company financial position regardless of the results of subsidiaries and other entities in the group.

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

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

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

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

Restructuring Provision
A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

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

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

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

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

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

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

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

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

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

Financial Assets Available for Sale
Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

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

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

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

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

As of the balance sheet date, assets are temporarily impaired depending on the anticipated recoverability of receivables based on an individual assessment of a receivable. The Company does not recognise a temporary impairment of receivables from subsidiaries and entities in the Group.

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

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

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

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

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

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

Derivative Financial Instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to currency and commodity risks.

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

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

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

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

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

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Financial Derivatives Held for Trading
Derivatives that do not meet the conditions for hedging derivatives are classified by the Company as derivatives held for trading.

The change in the fair value of derivatives held for trading is recognised as an expense or income from derivative transactions.

2.17. CHANGES IN ACCOUNTING POLICIES
In the year ended 31 December 2012, the Company changed the reporting of the short-term lease of traction vehicles and wagons.

In the financial statements for the year ended 31 December 2011, the above-stated lease of CZK 551 million was reported by the Company in the statement of profit or loss line 'Revenue from principal operations' in 'Other revenues from intrastate freight transportation'. In the financial statements for the year ended 31 December 2012, the above-stated lease of CZK 514 million is reported in the statement of profit or loss line 'Other operating income' under 'Rental income'.

In the financial statements for the year ended 31 December 2012, the Company reclassified the above-stated lease of CZK 551 million for the year ended 31 December 2011 from 'Revenue from principal operations' to 'Other operating income' for the sake of the comparability of the financial statements.

3. Adoption of New and Revised International Financial Reporting Standards

3.1. STANDARDS AND INTERPRETATIONS EFFECTIVE FOR ANNUAL PERIODS ENDING 31 DECEMBER 2012

During the year ended 31 December 2012, the following standards, revised standards and interpretations took effect:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 7 – Financial Instruments Disclosures – Transfers of Financial Assets	1 July 2011

3.2. STANDARDS AND INTERPRETATIONS USED BEFORE THEIR EFFECTIVE DATES

The Company used no standards or interpretations before their effective dates.

3.3. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

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

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
Removal of Fixed Dates for First-time Adopters	1 July 2011
Government Loans	1 January 2013
Temporary Exemption from Disclosure of the Information Required by IFRS 7	1 July 2010
Temporary Exemption from the Requirements of IFRS 9	1 July 2010
Severe Hyperinflation and Removal of Fixed Dates	1 July 2010
Improvements to 2010 – revised IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13	1 July 2010 or 1 January 2011
IFRS 7	
Extended Disclosure Requirements about Derecognition	1 July 2013
Amendments to IFRS 7 Financial Instruments: Disclosure and IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2013 and 1 January 2014
IFRS 9	
Financial Instruments – Classification and Measurement	1 January 2015
Amendments to IFRS 9 – New Mandatory Effective Date and Transition Disclosures	1 January 2015
IFRS 10 – Consolidated Financial Statements:	
Transition Guidance	1 January 2013
Investment Entities	1 January 2014
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
Improvements to IFRS 2009 – 2011	1 January 2013
IAS 1 – Presentation of Financial Statements: Presentation of Items of Other	
Comprehensive Income for Items that will be Reclassified to the Profit or Loss	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
Income Taxation – Deferred Tax – Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits – Eliminating an Option of the Corridor Approach, Disclosure	1 January 2013
IAS 24 – Related Party Disclosures	1 January 2011
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IAS 32 – Classification of Rights Issues	1 February 2010
IFRIC 14 – Prepayments for a Minimum Funding Requirement	1 January 2011
Revised IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Minimum Funding Requirement Contributions that would be Required for Future Service	1 January 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Management of the Company anticipates that the adoption of these standards, revised standards and interpretations will have no material impact on the Company in the following periods, except for the detailed presentation under IFRS 12 and IAS 1.

The above standards and interpretations have no impact on the disclosure and presentation or on the disclosed financial results, with the following exceptions:

The Company used an exception listed in paragraphs 25 – 27 of revised IAS 24, effective for annual periods beginning on or after 1 January 2011. The exception relates to the disclosure of related party transactions in respect of state controlled entities (refer to the Point 'Related Party Transactions').

3.4. STANDARDS AND INTERPRETATIONS THAT ARE ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB) BUT NOT YET ADOPTED BY THE EUROPEAN UNION

At the balance sheet date, some of the standards and interpretations listed in the prior point have not been adopted by the European Union:

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Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
Removal of Fixed Dates for First-time Adopters	1 July 2011
Severe Hyperinflation	1 July 2011
Government Loans	1 January 2013
IFRS 7	
Extended Disclosure Requirements about Derecognition	1 July 2013
Amendments to IFRS 7 Financial Instruments: Disclosure and IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2013 and 1 January 2014
IFRS 9	
Financial Instruments – Classification and Measurement	1 January 2015
Amendments to IFRS 9 – New Mandatory Effective Date and Transition Disclosures	1 January 2015
IFRS 10 – Consolidated Financial Statements:	
Transition Guidance	1 January 2013
Investment Entities	1 January 2014
IFRS 11 – Joint Arrangements	1 January2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
Improvements to IFRS 2009 – 2011	1 January 2013
IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits	1 January 2013
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IAS 32 – Offsetting of Financial Assets and Financial Liabilities	1 January 2014
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, which are described in Point 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

4.1. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

4.2. IMPAIRMENT OF ASSETS

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

4.3. REVENUE FROM INTERNATIONAL TRANSPORTATION

Given the long intervals of settlement of mutual payments between transporters in the international transportation, the Company has to estimate the amount of these revenues. The actual value of revenue mutually derecognised among transporters may be different.

4.4. MEASUREMENT OF FINANCIAL INSTRUMENTS

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

4.5. INCOME TAXATION

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

4.6. PROVISION FOR EMPLOYEE BENEFITS

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays.

In calculating the provision, the Company used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

4.7. PROVISIONS FOR LEGAL DISPUTES AND BUSINESS RISKS

The Company is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Company creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates.

4.8. RESTRUCTURING PLAN

In 2012, management of ČD Cargo, a.s. undertook a series of measures designed to strengthen the liquidity of the Company in the short-term and create conditions for achieving more favourable economic results in the medium-term and consequently ensure the stability of the Company in the following years. The implemented measures have served a basis for preparing a medium-term business plan of the Company.

5. Revenue from Principal Operations

All of the additional information given below on the statement of profit or loss relates to continuing operations.

(CZK '000)	2012	2011
Revenue from freight transportation:	**12 228 270**	**12 468 955**
Revenue from freight transportation - local	4 896 541	5 515 422
Revenue from freight transportation – foreign	7 331 729	6 953 533
Other revenue from freight transportation:	**1 095 241**	**1 162 601**
Other revenue from freight transportation - local	311 908	259 748
Other revenue from freight transportation - foreign	783 333	902 853
Other revenue related to transportation	**91 753**	**135 007**
Total revenue from principal operations – continuing operations	13 415 264	13 766 563

Other revenue from freight transportation predominantly includes the revenue from freight transportation from other transporters and owners of railways and revenue from other transportation.

With respect to the volume of billed services, the principal local customers include the following:

- ČEZ, a. s.
- CARBOSPED, spol. s r. o.
- MORAVIA STEEL, a. s.
- NH TRANS SE
- AWT Čechofracht, a. s.
- ČD Logistics, a. s.

Foreign customers predominantly include railway transportation companies (national transporters) and other entities. With respect to the volume of billed services, the principal companies are as follows:

Railway transportation companies (national transporters)

- Železničná spoločnosť´ Cargo Slovakia, a.s.
- DB Schenker Rail Deutschland AG
- PKP Cargo SA
- Rail Cargo Austria AG

Other companies

- Express Slovakia „Mezinárodná preprava a.s."
- A.P. Möller - Maersk A/S
- ČD Generalvertretung GmbH
- DB Schenker Rail Automotiv
- BLG AutoRail GmbH

6. Other Operating Income

(CZK '000)	2012	2011
Gain from the sale of property, plant and equipment	32 525	35 945
Gain from the sale of inventory	5 657	4 250
Rental income	542 499	577 711
Compensations for deficits and damage	48 652	26 438
Acquisition of material	20 162	21 136
Other subsidies	3	22 020
Other	102 039	113 930
Total other operating income – continuing operations	**751 537**	**801 430**

Other operating income predominantly includes income from contractual penalties and default interest and income from compensation of damage for railway traffic closures in relation to Správa železniční dopravní cesty, s.o. (refer to Point 27.7.).

7. Purchased Consumables and Services

(CZK '000)	2012	2011
Traction costs	**-1 821 424**	**-1 798 717**
Traction fuel (diesel) Traction electricity	-570 060 -1 251 364	-619 084 -1 179 633
Payment for the use of railway route	**-2 220 595**	**-2 342 865**
Other purchased consumables and services	**-3 641 868**	**-3 268 625**
Consumed material	-328 186	-361 760
Consumed other energy	-108 645	-105 398
Consumed fuel	-11 056	-10 384
Repairs and maintenance	-278 688	-239 728
Travel costs	-39 480	-44 326
Telecommunication, data and postal services	-66 489	-87 168
Other rental	-172 058	-167 034
Rental for rail vehicles	-693 867	-722 714
Transportation charges	-1 261 918	-878 694
Services associated with the use of buildings	-34 962	-26 905
Operational cleaning of rail vehicles	-8 929	-8 954
Border area services	-181 181	-178 853
Advertising and promotion costs	-57 820	-72 848
Other services	-398 589	-363 859
Total purchased consumables and services – continuing operations	**-7 683 887**	**-7 410 207**

Other services predominantly include the costs of education, IT, healthcare, advisory, fire protection and security and commissions for representation abroad.

8. Employee Benefit Costs

(CZK '000)	2012	2011
Payroll costs	-2 937 547	-3 050 866
Severance pay	-140 022	-49 142
Statutory social security and health insurance	-998 411	-1 028 837
Benefits resulting from the collective agreement	-52 550	-45 857
Other social costs	-188 802	-193 703
Other employee benefit costs	-19 054	-15 908
Total employees benefit costs – continuing operations	**-4 336 386**	**-4 384 313**

9. Depreciation and Amortisation

(CZK '000)	2012	2011
Depreciation of property, plant and equipment	-1 825 172	-1 846 176
Amortisation of intangible assets	-45 326	-35 243
Total depreciation and amortisation – continuing operations	**-1 870 498**	**-1 881 419**

10. Other Operating Gains (Losses)

(CZK '000)	2012	2011
Change in other provisions	-549 660	-368 138
Losses from impaired receivables	-33 515	-7 070
Temporarily impaired property, plant and equipment	47 369	-91 077
Taxes and fees	-4 083	-9 620
Other operating expenses	-122 042	-130 833
Total other operating losses – continuing operations	**-661 931**	**-606 738**

Other operating expenses predominantly include damages and insurance payments.

11. Financial Expenses

(CZK '000)	2012	2011
Interest on bank overdraft accounts and loans	-9 718	-17 381
Interest on finance lease payables	-147 086	-154 294
Interest expenses - bonds	-52 856	0
Other interest expenses	-54 902	-125 239
Unwinding of the discount of provisions	-1 489	-3 130
Total financial expenses – continuing operations	**-266 051**	**-300 044**

12. Other Gains (Losses)

(CZK '000)	2012	2011
Net foreign exchange gains (losses)	-14 300	29 322
Received dividends	36 114	15 850
Net profit (loss) from the sale of securities and equity investments	-737	0
Received interest	1 775	1 868
Banking fees	-3 241	-4 140
Actuarial gains (loss)	2 452	-10 905
Other	2 047	1 652
Total other gains (losses) – continuing operations	**24 110**	**33 647**

13. Income Taxation

13.1. INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK '000)	2012	2011
Current income tax for the prior period	0	-3 721
Deferred tax recognised in the statement of profit or loss	-181 665	-70 813
Deferred tax reclassified from equity to profit or loss	0	-7 631
Total tax charge relating to continuing operations	**-181 665**	**-82 165**

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

(CZK '000)	2012	2011
Profit from continuing operations	-627 842	18 919
Income tax calculated using the statutory rate of 19%	119 290	-3 594
Effect of permanently non-tax costs and income	-300 955	-78 571
Income tax reported in profit or loss	**-181 665**	**-82 165**

13.2. DEFERRED TAX

(CZK '000)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Other	Total
Balance on 31 December 2010	**-118 213**	**130 558**	**-73 981**	**89 419**	**-5 702**	**-26 948**	**-4 867**
Deferred tax recognised in the statement of profit or loss	97 307	-19 206	-72 423	51 707	687	20 372	78 444
Deferred tax recognised in other comprehensive income	0	0	0	0	0	13 384	13 384
Balance on 31 December 2011	**-20 906**	**111 352**	**-146 404**	**141 126**	**-5 015**	**6 808**	**86 961**
Deferred tax recognised in the statement of profit or loss	13 810	188 367	-104 405	91 527	-2 678	-4 956	181 665
Deferred tax recognised in other comprehensive income	0	0	0	0	0	-799	-799
Balance on 31 December 2012	**-7 096**	**299 719**	**-250 809**	**232 653**	**-7 693**	**1 053**	**267 827**

14. Property, Plant and Equipment

Cost (CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Reclassification	Balance on 31 Dec 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2012
Land	91 294	0	0	0	91 294	0	0	0	91 294
Structures	1 179 199	77 584	346	757	1 257 194	95 525	2 009	0	1 350 710
Individual movable assets	36 308 546	1 188 623	1 061 835	-757	36 434 577	2 393 490	888 754	0	37 939 313
Machinery, equipment, and furniture and fixtures	464 291	45 595	22 198	27 163	514 851	61 777	29 677	20 593	567 544
Vehicles	29 790 793	1 085 263	810 596	34 370	30 099 830	2 302 314	722 109	-1 014 432	30 665 603
Vehicles acquired under finance leases	5 966 841	53 000	209 090	-15 968	5 794 783	29 373	130 361	1 002 255	6 696 050
Other	86 621	4 765	19 951	-46 322	25 113	26	6 607	-8 416	10 116
Other assets	0	0	0	0	0	0	0	0	0
Assets under construction	116 365	1 135 696	0	-1 105 397	146 664	2 480 016	0	-2 469 821	156 859
Prepayments	239 432	0	27	0	239 405	1 479 130	1 613 293	0	105 242
Total	**37 934 836**	**2 401 903**	**1 062 208**	**-1 105 397**	**38 169 134**	**6 448 161**	**2 504 056**	**-2 469 821**	**39 643 418**

Accumulated depreciation (CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Reclassification	Balance on 31 Dec 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2012
Structures	646 628	29 370	583	105	675 520	29 886	1 102	0	704 304
Individual movable assets	22 704 505	1 890 901	1 045 049	-105	23 550 252	1 786 352	1 085 381	0	24 251 223
Machinery, equipment, and furniture and fixtures	337 355	29 132	22 207	7 257	351 537	39 367	25 434	18 230	383 700
Vehicles	20 941 181	1 505 512	793 895	1 133	21 653 931	1 472 847	923 034	-223 026	21 980 718
Vehicles acquired under finance leases	1 384 168	352 581	209 091	0	1 527 658	273 556	130 361	207 040	1 877 893
Other	41 801	3 676	19 856	-8 495	17 126	582	6 552	-2 244	8 912
Other assets	0	0	0	0	0	0	0	0	0
Total	**23 351 133**	**1 920 271**	**1 045 632**	**0**	**24 225 772**	**1 816 238**	**1 086 483**	**0**	**24 955 527**

Impairment (CZK '000)	Balance on 31 Dec 2010	Additions	Disposals	Balance on 31 Dec 2011	Additions	Disposals	Balance on 31 Dec 2012
Individual movable assets: vehicles	15 269	102 646	15 269	102 646	58 977	102 646	58 977
Prepayments	0	3 700	0	3 700	5 000	8 700	0
Total	**15 269**	**106 346**	**15 269**	**106 346**	**63 977**	**111 346**	**58 977**

Reclassifications predominantly include transfers of asset items between individual groups of assets (IAS 16, IAS 17) relating to the finance leaseback of railway vehicles and traction vehicles.

Net book value (CZK '000)	Balance on 31 Dec 2012	Balance on 31 Dec 2011	Balance on 31 Dec 2010
Land	91 294	91 294	91 294
Buildings	646 406	581 674	532 571
Individual movable assets	13 629 113	12 781 679	13 588 772
Machinery, equipment, and furniture and fixtures	183 844	163 314	126 936
Vehicles	8 625 908	8 343 253	8 834 343
Vehicles acquired under finance leases	4 818 157	4 267 125	4 582 673
Other	1 204	7 987	44 820
Other assets	0	0	0
Assets under construction	156 859	146 664	116 365
Prepayments	105 242	235 705	239 432
Total	**14 628 914**	**13 837 016**	**14 568 434**

During the year ended 31 December 2012, the volume of property, plant and equipment did not change significantly.

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, freight cars) used for the operations of the railway freight transportation. This item was impaired in the amount of the difference between the net book value and the recoverable value of CZK 58,977 thousand.

Principal additions to individual movable assets in the year ended 31 December 2012 included the modernisation of the 363.5 series traction vehicles of CZK 1,108,447 thousand, major and general repairs (components) of traction vehicles of CZK 530,248 thousand, inspection repairs (components) of wagons of CZK 302,350 thousand and improvements on wagons of CZK 231,926 thousand. Additions to inspection repairs (components) of leased assets in 2012 amounted to CZK 166,677 thousand.

In the years ended 31 December 2012 and 2011, the Company acquired tangible assets recognised in expenses in the amounts of CZK 30,360 thousand and CZK 31,854 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 105,242 thousand as of 31 December 2012 and relate to the ongoing modernisation of traction vehicles from series 163 to series 363.5.

In 2012, the Company decided to optimise its rolling stock and selected 4,700 wagons and approximately 100 traction vehicles for scrapping. In respect of this planned transaction, the Company reported an impairment of vehicles of CZK 58,977 thousand and recognised an extraordinary write-off of CZK 101,655 thousand.

Depreciation was calculated using the following useful lives:

Buildings	20 – 50 years
Structures	20 – 50 years
Locomotives components: *major repair* *general repair*	20 – 25 years 2-6 years 8-24 years 4-12 years
Freight wagons components – technical inspection	30 years 2-6 years
Machinery and equipment	8 – 20 years

14.1. ASSETS PLEDGED AS COLLATERAL

As of 31 December 2012 and 2011, no assets of the Company were pledged as collateral.

15. Intangible Assets

Cost (CZK '000)	Software	Valuable rights	Assets under construction	Total
Balance on 31 Dec 2010	281 145	98 175	41 900	**421 220**
Additions	49 065	16 930	67 254	**133 249**
Disposals		100	0	**100**
Reclassification	-3 345	3 345	-67 160	**-67 160**
Balance on 31 Dec 2011	326 865	118 350	41 994	**487 209**
Additions	31 108	4 755	84 186	**120 049**
Disposals	0	0	0	**0**
Reclassification	0	0	-33 163	**-33 163**
Balance on 31 Dec 2012	357 973	123 105	93 017	**574 095**

Accumulated amortisation (CZK '000)	Software	Valuable rights	Total
Balance on 31 Dec 2010	208 670	48 314	**256 984**
Additions	27 656	7 586	**35 242**
Disposals	0	100	**100**
Reclassification	-93	93	**0**
Balance on 31 Dec 2011	236 233	55 893	**292 126**
Additions	32 939	12 386	**45 325**
Disposals	0	0	**0**
Reclassification	0	0	**0**
Balance on 31 Dec 2012	269 172	68 279	**337 451**

Reclassifications predominantly include transfers of asset items between individual groups of assets (IAS 38) relating to software and valuable rights.

Net book value (CZK '000)	Software	Valuable rights	Assets under construction	Total
Balance on 31 Dec 2012	88 801	54 826	93 017	**236 644**
Balance on 31 Dec 2011	90 632	62 457	41 994	**195 083**
Balance on 31 Dec 2010	72 475	49 861	41 900	**164 236**

Amortisation costs were reported in the statement of profit or loss line 'Depreciation and amortisation'. The amortisation was calculated using useful lives of 3 to 8 years.

Intangible fixed assets predominantly include the formation yards information systems, SAP upgrade, the Microsoft Enterprise Agreement licence, OPT information system, the central wagon navigation information system and other systems used by the Company.

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

16. Investments in Subsidiaries and Associates

16.1. INFORMATION ON SUBSIDIARIES

Name of the entity (CZK '000)	Registered office	Value of investment as of 31 Dec 2012	31 Dec 2011
CD Generalvertretung GmbH	Kaiserstrasse 60, 60329 Frankfurt am Main, Germany	1 375	1 375
Koleje Czeskie Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-131Warsaw, Poland	749	749
CD Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Vienna, Austria	1 126	1 126
Generálne zatúpenie ČD Cargo,s.r.o.	Prievozská 4/B, 82109 Bratislava	169	169
Terminal Brno, a.s.	K terminálu 614/11, 61900 Brno	45 964	33 291
ČD-DUSS Terminál, a.s.	Lukavecká 1189, 41002 Lovosice	2 040	2 040
ČD Trans s.r.o.*	Leninova 22, 224005 Brest, Belarus	0	0
ČD Logistics, a.s.	Opletalova 1284/37, 11000 Prague 1	5 600	5 600
Auto Terminal Nymburk, s.r.o.	Jankovcova 1569/2c, 170 00 Prague 7	200	0
Total		**57 223**	**44 350**

***the entity was dissolved in liquidation as of 1 April 2012**

Name of the entity	Principal activities	Investment as of 31 Dec 2012	31 Dec 2011
CD Generalvertretung GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo,a.s., general representation, and comprehensive information services for customers of ČD Cargo, a.s.	100%	100%
Koleje Czeskie Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., general representation, comprehensive general information services for customers on the territory of Poland, Lithuania, Latvia and Estonia	100%	100%
CD Generalvertretung Wien GmbH	Mediation of services in freight transportation, business representation in Austria, Italy, parts of Hungary, Switzerland and former Yugoslavia.	100%	100%
Generálne zatúpenie ČD Cargo, s.r.o.	Business representation and mediation services in transportation and services.	100%	100%
Terminal Brno, a.s.	Storage of goods and handling of cargo (storage of shipments in the combined transportation - containers, exchangeable superstructures and road semi-trailers), technical activities in transportation, real estate activities and facility management.	66.9%	66.9%
ČD-DUSS Terminál, a.s.	Operations of container terminals, including additional services (road collection and distribution of shipments, repairs and stock-pile of load units).	51%	51%
ČD Trans s.r.o.	Transportation and transport of cargo including services in the Brest terminal.	51%	51%
ČD Logistics, a.s.	Storage and handling of material.	56%	56%
Auto Terminal Nymburk, s.r.o.	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act (mediation of trade and services, shipping and customs brokerage, storage, handling of cargo and technical activities in transportation).	100%	n/a

16.2. INFORMATION ON ASSOCIATES

Name of the entity (CZK '000)	Registered office	Value of investment as of 31 Dec 2012	31 Dec 2011
BOHEMIAKOMBI, spol. s r.o.	Opletalova 6, 11000 Prague 1	4 514	4 421
Ostravská dopravní společnost, a.s.	U Tiskárny 616/9, 70200 Ostrava, Přívoz	30 128	30 127
RAILLEX a.s.	Trnkovo nám. 3, 15200 Prague 5	1 005	1 005
Total		**35 647**	**35 553**

Name of the entity (CZK '000)	Principal activities	Investment as of 31 Dec 2012	31 Dec 2011
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for transportation by own vehicles	30%	30%
Ostravská dopravní společnost, a.s.	Operating railway transportation and lease of locomotives.	20%	20%
RAILLEX a.s.	Handling of cargo and technical services in transportation.	50%	50%

■ **Summary of Financial Information on Associates**

(CZK '000)	31 Dec 2012	31 Dec 2011
Total assets	557 380	476 417
Total liabilities	333 172	289 008
Net assets	224 208	187 409
Share of the Company in associates' net assets	**52 162**	**41 380**

(CZK '000)	2012	2011
Total income	1 656 284	1 229 427
Profit for the period	50 307	39 819
Share of the Company in associates' profit for the period	**13 463**	**10 232**

17. Inventories

(CZK '000)	31 Dec 2012	31 Dec 2011
Spare parts and other components for rail vehicles and locomotives	8 131	9 045
Other machinery, tools and equipment and their spare parts	65 799	66 690
Fuels, lubricants and other oil products	4 035	3 345
Work clothes, work shoes, protective devices	731	553
Other	10 346	10 257
Total cost	**89 042**	**89 890**
Write-down of inventories to their net realisable value	0	0
Total net book value	**89 042**	**89 890**

No allowances were recognised based on inventory counts in 2012 and 2011.

18. Trade Receivables

(CZK '000)	31 Dec 2012	31 Dec 2011
Long-term	3 211	6 577
Short-term	1 755 060	1 788 187
Total	**1 758 271**	**1 794 764**

18.1. AGING OF TRADE RECEIVABLES

(CZK '000)	Category	Before due date	Past due date (days) 1 - 30	31 – 90	91- 180	181 -365	365 and more	Total past due date	Total
31 Dec 2012	Gross	1 650 602	13 642	24 200	14 292	15 706	146 751	214 591	1 865 193
	Allowances	0	0	-4 775	-6 096	-4 118	-91 933	-106 922	-106 922
	Net	**1 650 602**	**13 642**	**19 425**	**8 196**	**11 588**	**54 818**	**107 669**	**1 758 271**
31 Dec 2011	Gross	1 471 519	263 957	14 265	8 547	5 090	86 332	378 191	1 849 710
	Allowances	0	0	-9 846	-5 878	-3 552	-35 670	-54 946	-54 946
	Net	**1 471 519**	**263 957**	**4 419**	**2 669**	**1 538**	**50 662**	**323 245**	**1 794 764**

19. Other Financial Assets

(CZK '000)	31 Dec 2012	31 Dec 2011
Other non-current financial assets	10 772	19 025
Other current financial assets	96 090	119 893
Total other financial assets	**106 862**	**138 918**

Other financial assets predominantly include the loan provided to Raillex, receivables for deficits and damage, and receivables registered for recovery with the courts and financial derivatives. Allowances of CZK 6,185 thousand and CZK 24,646 thousand are recognised for receivables assigned for recovery through the courts in the years ended 31 December 2012 and 2011, respectively.

20. Other Assets

(CZK '000)	31 Dec 2012	31 Dec 2011
Non-current other assets	**90**	**141**
Prepayments made	96 288	98 914
Tax receivables (except for corporate income tax)	4	127 115
Prepaid expenses	15 700	56 697
Other	338	1 443
Current other assets	**112 330**	**284 169**
Total other assets	**112 420**	**284 310**

21. Equity

21.1. SHARE CAPITAL

As of 31 December 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 amounted to CZK 8,800,000 thousand.

On 2 June 2009, 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. As of 31 December 2012, the Company reports the share capital of CZK 8,494,000 thousand fully paid.

21.2. RESERVE AND OTHER FUNDS

(CZK '000)	31 Dec 2012	31 Dec 2011
Share premium	197 658	197 658
Statutory reserve fund	60 653	60 653
Cash flow hedging reserve	-33 163	-29 759
Total	**225 148**	**228 552**

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

■ Cash Flow Hedging Reserve

(CZK '000)	2012	2011
Balance on the beginning of the year	-29 759	-108 512
Loss from revaluation	-9 495	-34 983
Reclassification to profit or loss	5 292	77 172
Accrual of the cost	0	49 947
Total change in the cash flow hedging reserve	**-4 203**	**92 136**
Relating income tax	799	-13 383
Balance on the year-end	**-33 163**	**-29 759**

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

22. Loans And Borrowings

(CZK '000)	31 Dec 2012	31 Dec 2011
Payables from finance leases	745 780	575 445
Overdraft accounts	859 505	349 709
Total short-term	**1 605 285**	**925 154**
Payables from finance leases	2 159 739	2 344 076
Issued bonds	2 486 483	1 980 109
Total long-term	**4 646 222**	**4 324 185**
Total	**6 251 507**	**5 249 339**

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the financial statements date are recognised as short-term loans and borrowings.

The Company breached no loan covenants in the reporting period.

22.1. ISSUED BONDS

On 4 May 2011, the resolution of the Czech National Bank, ref. no 2011/4833/570, File no. Sp/2011/50/572 approved the bond programme of ČD Cargo, a.s. The highest volume of outstanding bonds issued under the bond programme may amount up to CZK 6,000 million with the term of the bond programme being ten years. The above resolution of the Czech National Bank took effect on 5 May 2011.

In 2011, the following issues of bonds were placed under the bond programme:

Administrator	Komerční banka, a.s.
Date of issue	20 June 2011
Total nominal value	CZK 1,000,000,000
Interest rate	Fixed interest income
Interest rate (1-3 year); coupon	3.183 % p.a.
Interest rate (4-5 year); coupon	5 % p.a.
Issue rate	98.025%
Payment of interest income	Annually retrospectively
Date of the interest payment	20 June each year
Date of the final maturity	20 June 2016
Date of the final maturity (use of the put option)	20 June 2014

Administrator	Československá obchodní banka, a.s.
Date of issue	22 Dec2011
Total nominal value	CZK 500,000,000
Nominal value of the bond	CZK 1
Interest rate	variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all other periods	1.64 % p.a.
Margin	1.30 % p.a.
Issue rate	97.464%
Payment of interest income	on six months basis, retrospectively
Date of the interest payment	22 June and 22 December each year
Date of the final maturity	22 Dec 2015

Administrator	Raiffeisenbank, a.s.
Date of issue	21 Dec 2011
Total nominal value	CZK 500,000,000
Interest rate; coupon	Fixed interest income, 3.8 % p.a.
Issue rate	99.941%
Payment of interest income	annually retrospectively
Date of the interest payment	21 Dec each year
Date of the final maturity	21 Dec 2016

Manager	Československá obchodní banka, a.s.
Date of issue	12 January 2012
Total nominal value	CZK 200,000,000
Nominal value of the bond	CZK 1
Interest rate	Variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all the following periods	1.64 % p.a.
Mark-up	1.30 % p.a.
Issue rate	97.506%
Payment of interest income	Bi-annually retrospectively
Date of the interest payment	22 June and 22 Dec each year
Date of final maturity	22 Dec 2015

Manager	Československá obchodní banka, a.s.
Date of issue	19 January 2012
Total nominal value	CZK 300,000,000
Nominal value of the bond	CZK 1
Interest rate	Variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all the following periods	1.64 % p.a.
Mark-up	1.30 % p.a.
Issue rate	97.518%
Payment of interest income	Bi-annually retrospectively
Date of the interest payment	22 June and 22 Dec each year
Date of final maturity	22 Dec 2015

22.2. FINANCE LEASE PAYABLES
The Company concluded several lease contracts for the purchase of railway vehicles. The loans mature in 10 and more years. Pursuant to a lease contract, the Company has the ability to buy these vehicles upon the expiration of the lease. The Company's payables arising from finance leases are collateralised by the lessor's ownership title to the leased assets.

The value of finance leases is as follows:

(CZK '000)	Minimum lease payments		Present value of minimum lease payments	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Less than 1 year	867 483	704 678	745 779	575 445
From 1 to 5 years	1 610 343	1 826 880	1 314 426	1 542 429
5 years and more	917 854	871 223	845 313	801 647
Total	**3 395 680**	**3 402 781**	**2 905 518**	**2 919 521**
Less future finance expenses	-490 162	-483 260	-	-
Present value of minimum lease payments	**2 905 518**	**2 919 521**	**2 905 518**	**2 919 521**
In the statement of financial position as:				
short-term loans			745 780	575 445
long-term loans			2 159 738	2 344 076
Total			**2 905 518**	**2 919 521**

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

23. Provisions

(CZK '000)	Balance on 31 Dec 2010	Charge	Use	Balance on 31 Dec 2011	Charge	Use	Balance on 31 Dec 2012
Provision for legal disputes	7 198	18 065	8 370	16 893	52 732	16 252	53 373
Provision for outstanding vacation days	27 581	25 828	27 582	25 827	27 676	25 827	27 676
Provision for business risks	240 000	150 000	0	390 000	149 988	0	539 988
Provision for employee bonuses	95 432	44 457	30 421	109 468	55 252	56 217	108 503
Provision for restructuring	0	110 365	0	110 365	535 000	110 365	535 000
Provision for the fee for the use of trademark	0	95 000	0	95 000	0	95 000	0
Other provisions*	19 165	23 997	19 165	23 997	56 667	25 157	55 507
Total provisions	**389 376**	**467 712**	**85 538**	**771 550**	**877 315**	**328 818**	**1 320 047**
long-term	65 011			65 298			70 070
short-term	324 365			706 252			1 249 977

** Other provisions include provisions for complaints, returns of empty wagons, damages and other provisions.*

After having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management has decided to increase the amount of the non-tax deductible provision by CZK 149,988 thousand to CZK 539,988 thousand to cover potential expenses relating to potential risks for business transactions.

As of 31 December 2012, management of the Company has decided to make organisational changes pursuant to the prepared restructuring plan, the main features of which were communicated within the Company. The future cash outflows associated with the restructuring were estimated at CZK 535,000 thousand in the plan. The restructuring involves the inspection of the rolling stock and the scrapping of redundant wagons and traction vehicles as disclosed in Point 14.

The provision for employee benefits includes the claim of employees for a financial contribution for life jubilees, financial contribution upon retirement and payment of treatment costs including the salary refund in wellness stays. The amount of the provision was calculated at CZK 108,503 thousand using an actuarial model. For details on this model, refer to Point 4.6.

24. Trade Payables

Year (CZK '000)	Category	Before due date	Past due date (days) 1 – 30	31 – 90	91–180	181-365	365 and more	Total past due date	Total
31 Dec 2012	Short-term	2 380 961	12 206	2 256	18	7 546	0	22 026	**2 402 987**
31 Dec 2011	Short-term	2 105 168	33 959	5 338	535	181	0	40 013	**2 145 181**

Supplier invoices typically mature in 90 days.

25. Other Financial Liabilities

(CZK '000)	31 Dec 2012	31 Dec 2011
Long-term other financial liabilities	**243 014**	**479 740**
Financial derivative instruments	71 145	31 748
Other	171 869	447 992
Short-term other financial liabilities	**508 724**	**753 079**
Financial derivative instruments	28 954	6 209
Other	479 770	746 870
Total other financial liabilities	**751 738**	**1 232 819**

"Other" primarily includes a liability arising from supplier loans divided into a short-term and long-term portion.

26. Other Liabilities

(CZK '000)	31 Dec 2012	31 Dec 2011
Other long-term liabilities	**367 746**	**381 498**
Received prepayments	40 205	56 237
Payables to employees	370 052	376 094
Social security and health insurance payables	118 143	118 933
Other	136 258	118 050
Total short-term liabilities	**664 658**	**669 314**
Total other liabilities	**1 032 404**	**1 050 812**

The line item 'Other long-term liabilities' primarily includes deferred leaseback gains. The line item 'Other' predominantly includes payables arising from VAT and deferred leaseback gains.

The Company records no liabilities past their due dates to taxation authorities, social security institutions and health insurers.

27. Related Party Transactions

27.1. INCOME GENERATED WITH RELATED PARTIES

2012 (CZK '000)	Sale of tangible FA	Sale of inventory	Sale of services	Other income	Financial income	Total
ČD – Telematika, a. s.	0	0	175	0	0	175
ČD - Informační Systémy, a.s.	0	0	0	0	0	0
Výzkumný Ústav Železniční, a. s.	0	0	4 725	0	0	4 725
DPOV, a.s.	0	75	16 623	379	0	17 077
ČD, a.s.	0	370	23 987	4 914	0	29 271
ČD Generalvertretung GmbH	0	0	248 414	0	1 809	250 223
ČD Generalvertretung Wien GmbH	0	0	22	0	0	22
Koleje Czeskie Sp. Z o.o.	0	0	125 285	0	1 059	126 344
Generálne zastúpenie ČD Cargo, s.r.o.	0	0	669	0	0	669
ČD Logistics, a.s.	0	0	575 601	34	338	575 973
ČD-DUSS Terminál, a.s.	0	0	189	0	0	189
Terminál Brno, a.s.	0	2	285	0	0	287
RAILLEX, a.s.	0	0	0	0	0	0
BOHEMIAKOMBI, spol. s r.o.	0	0	0	0	0	0
Ostravská dopravní společnost, a.s.	0	0	0	0	0	0
Smíchov Station Development, a.s.	0	0	0	0	0	0
Žižkov Station Development, a.s.	0	0	0	0	0	0
Centrum Holešovice, a.s.	0	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	0	0	0	0	0	0
ČD Travel, s.r.o.	0	0	0	0	0	0
JLV, a.s.	0	0	0	0	0	0
Masaryk Station Development, a.s.	0	0	0	0	0	0
Total	**0**	**447**	**995 975**	**5 327**	**3 206**	**1 004 955**

2011 (CZK '000)	Sale of tangible FA	Sale of inventory	Sale of services	Other income	Financial income	Total
ČD – Telematika, a. s.	0	0	112	0	0	112
ČD - Informační Systémy, a.s.	0	0	0	0	0	0
Výzkumný Ústav Železniční, a. s.	0	0	4 200	0	0	4 200
DPOV, a.s.	0	44	22 405	287	0	22 736
ČD, a.s.	87	1 277	25 630	2 728	0	29 722
ČD Generalvertretung GmbH	0	0	167 978	1	0	167 979
ČD Generalvertretung Wien GmbH	0	0	90	0	0	90
Koleje Czeskie Sp. Z o.o.	6 615	0	148 422	61	0	155 098
Generálne zastúpenie ČD Cargo, s.r.o.	0	0	1 991	0	0	1 991
ČD Logistics, a.s.	20	0	591 821	324	0	592 165
ČD-DUSS Terminál, a.s.	0	0	0	0	0	0
Terminál Brno, a.s.	0	0	0	0	0	0
RAILLEX, a.s.	0	0	0	0	0	0
BOHEMIAKOMBI, spol. s r.o.	0	0	0	0	0	0
Ostravská dopravní společnost, a.s.	0	0	0	0	0	0
Smíchov Station Development, a.s.	0	0	0	0	0	0
Žižkov Station Development, a.s.	0	0	0	0	0	0
Centrum Holešovice, a.s.	0	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	0	0	0	0	0	0
ČD Travel, s.r.o.	0	0	0	0	0	0
JLV, a.s.	0	0	0	0	0	0
Masaryk Station Development, a.s.	0	0	0	0	0	0
Total	**6 722**	**1 321**	**962 649**	**3 401**	**0**	**974 093**

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27.2. PURCHASES FROM RELATED PARTIES

2012 (CZK '000)	Assets	Material	Services	Other expenses	Total
ČD - Telematika, a.s.	84 038	190	17 505	0	101 733
ČD - Informační Systémy, a.s.	33 722	1 761	104 940	0	140 423
Výzkumný Ústav Železniční, a.s.	210	0	30	0	240
DPOV, a.s.	94 809	72	26 830	0	121 711
ČD, a.s.	416	693 018	1 420 541	16 660	2 130 635
ČD Generalvertretung GmbH	0	0	43 657	0	43 657
ČD Generalvertretung Wien GmbH	0	0	8 982	0	8 982
Koleje Czeskie Sp. z o.o.	310	0	215 475	0	215 785
Generálne zastúpenie ČD Cargo, s.r.o.	0	0	41 334	0	41 334
ČD Logistics, a.s.	0	643	16 557	0	17 200
ČD-DUSS Terminal, a.s.	0	0	0	0	0
Terminal Brno, a.s.	0	0	8 947	0	8 947
RAILLEX, a.s.	0	0	0	156	156
BOHEMIAKOMBI, spol. s r.o.	0	0	0	0	0
Ostravská dopravní společnost, a.s.	0	0	49 745	0	49 745
Smíchov Station Development, a.s.	0	0	0	0	0
Žižkov Station Development, a.s.	0	0	0	0	0
Centrum Holešovice, a.s.	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	0	0	18 614	0	18 614
ČD Travel, s.r.o.	0	0	25 343	5	25 348
JLV, a.s.	0	0	1 543	0	1 543
Masaryk Station Development, a.s.	0	0	0	0	0
Total	**213 505**	**695 684**	**2 000 043**	**16 821**	**2 926 043**

2011 (CZK '000)	Assets	Material	Services	Other expenses	Total
ČD - Telematika, a.s.	4 451	913	44 545	0	49 909
ČD - Informační Systémy, a.s.	11 708	1 260	81 151	0	94 119
Výzkumný Ústav Železniční, a.s.	645	0	3	0	648
DPOV, a.s.	138 540	709	40 271	0	179 520
ČD, a.s.	758	748 912	1 357 107	703	2 107 480
ČD Generalvertretung GmbH	0	0	35 255	0	35 255
ČD Generalvertretung Wien GmbH	0	0	20 849	0	20 849
Koleje Czeskie Sp. z o.o.	878	0	15 541	0	16 419
Generálne zastúpenie ČD Cargo, s.r.o.	0	0	18 476	0	18 476
ČD Logistics, a.s.	0	852	3 658	0	4 510
ČD-DUSS Terminal, a.s.	0	0	0	0	0
Terminal Brno, a.s.	0	0	0	0	0
RAILLEX, a.s.	0	0	0	0	0
BOHEMIAKOMBI, spol. s r.o.	0	0	0	0	0
Ostravská dopravní společnost, a.s.	0	0	0	0	0
Smíchov Station Development, a.s.	0	0	0	0	0
Žižkov Station Development, a.s.	0	0	0	0	0
Centrum Holešovice, a.s.	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	0	2	20 842	0	20 844
ČD Travel, s.r.o.	0	0	21 841	0	21 841
JLV, a.s.	0	0	0	0	0
Masaryk Station Development, a.s.	0	0	0	0	0
Total	**156 980**	**752 648**	**1 659 539**	**703**	**2 569 870**

27.3. PURCHASES AND SALES OF FIXED ASSETS AND FINANCIAL ASSETS WITH RELATED PARTIES

Sales

Between 1 January 2012 to 1 December 2012, the Company recorded no sales of intangible, tangible or financial assets of related parties.

In the year ended 31 December 2011, the Company sold tangible fixed assets to České dráhy, a.s. in the amount of CZK 87 thousand, tangible fixed assets to Koleje Czeskie, Sp. z o. o. in the amount of CZK 6,615 thousand and tangible fixed assets to ČD Logistics, a. s. in the amount of CZK 20 thousand.

Purchases

Purchases (CZK '000)	Intangible assets	Property, plant and equipment	Intangible assets	Property, plant and equipment
	2012	2012	2011	2011
ČD, a.s.	406	10	0	758
ČD - Telematika a. s.	0	84 038	5	4 446
ČD - Informační Systémy, a.s.	33 722	0	11 708	0
Výzkumný Ústav Železniční, a.s.	0	210	0	645
DPOV, a.s.	0	94 809	0	138 540
Koleje Czeskie Sp. z o.o.	0	310	0	878
Total	**34 128**	**179 377**	**11 713**	**145 267**

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

27.4. OUTSTANDING BALANCES AT THE END OF THE REPORTING PERIOD

31 December 2012 (CZK '000)	Receivables	Payables
ČD, a.s.	8 894	301 081
ČD – Telematika, a.s.	91	6 323
ČD - Informační Systémy, a.s.	0	51 239
DPOV, a.s.	15 997	58 432
ČD Travel, s.r.o.	0	3 081
Výzkumný Ústav Železniční, a.s.	1 272	0
Smíchov Station Development, a.s.	0	0
Žižkov Station Development, a.s.	0	0
Centrum Holešovice, a.s.	0	0
JLV, a.s.	0	185
Masaryk Station Development, a.s.	0	0
ČD Generalvetretung GmbH	17 350	37 969
ČD Generalvertretung Wien GmbH	2	7 190
Koleje Czeskie Sp. z o.o.	28 906	11 653
ČD Logistics, a.s.	87 089	4 371
Generálne zastúpenie ČD Cargo, s.r.o.	73	11 032
Ostravská dopravní společnost, a.s.	27 305	8 316
ČD-DUSS Terminál, a.s.	0	0
Terminál Brno, a.s.	78	957
Dopravní vzdělávací institut, a.s.	0	2 457
RAILLEX, a.s.	5 039	0
BOHEMIAKOMBI, spol s r.o.	1 131	0
Total	**193 227**	**504 286**

31 December 2011 (CZK '000)	Receivables	Payables
ČD, a.s.	8 196	287 724
ČD - Telematika a. s.	21	12 631
ČD - Informační Systémy, a.s.	0	47 554
DPOV, a.s.	11 610	93 131
ČD Travel, s.r.o.	0	3 504
Výzkumný Ústav Železniční, a.s.	371	0
JLV, a.s.	0	139
ČD Generalvetretung GmbH	12 267	34 204
ČD Generalvertretung Wien GmbH	0	7 916
Koleje Czeskie Sp. z o.o.	18 269	6 038
ČD Logistics, a.s.	107 190	997
Generálne zastúpenie ČD Cargo, s.r.o.	0	13 656
Ostravská dopravní společnost, a.s.	5 465	10 591
ČD-DUSS Terminál, a.s.	0	0
Terminál Brno, a.s.	0	919
Dopravní vzdělávací institut, a.s.	0	2 026
RAILLEX, a.s.	2 775	0
BOHEMIAKOMBI, spol s r.o.	1 299	0
Total	**167 463**	**521 030**

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

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

27.5. LOANS TO RELATED PARTIES

In the past, ČD Cargo, a.s. 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 on 31 December 2012

Loan (CZK '000)	Long-term part of the loan	Short-term part of the loan	Total
Total	7 452	5 209	12 661
Principal	7 200	4 800	12 000
Interest	252	409	661
Sale of the railway siding	**Long-term part of the loan**	**Short-term part of the loan**	**Total**
Total	3 211	3 366	6 577
Principal	3 095	3 095	6 190
Interest	116	271	387

Balance on 31 December 2011

Loan (CZK '000)	Long-term part of the loan	Short-term part of the loan	Total
Total	12 661	5 081	17 742
Principal	12 000	4 587	16 587
Interest	661	494	1 155
Sale of the railway siding	**Long-term part of the loan**	**Short-term part of the loan**	**Total**
Total	6 578	3 521	10 099
Principal	6 191	3 096	9 287
Interest	387	425	812

27.6. BONUSES TO KEY MANAGEMENT MEMBERS

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

(CZK '000)	2012	2011
Short-term employee benefits	19 054	15 908
Total	**19 054**	**15 908**

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

27.7. RELATIONSHIPS 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 2011 and 2012. The costs for the years ended 31 December 2011 and 2012 are disclosed in Point 7.

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 2011 and 2012 is disclosed in Point 6.

The Company is conducting a legal dispute with Správa železniční dopravní cesty, s.o. regarding the price of the purchased traction electricity during the 2009 reporting period. This dispute was not finalised as of the 2012 financial statements date. In addition, the Company is conducting a legal dispute with Správa železniční dopravní cesty, s.o. on the method of settlement arising from the damages due to traffic closures of SŽDC, s.o. This dispute was not finalised as of the 2012 financial statements date.

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2012 and 2011 were as follows:

31 Dec 2012 (CZK '000)	Expenses	Income
Operation of the railway route	53 740	0
Use of railway route and allocated capacity of the railway route	2 219 052	0
Other	44 069	60 435
Total	**2 316 861**	**60 435**

31 Dec 2011 (CZK '000)	Expenses	Income
Operation of the railway route	55 006	0
Use of railway route and allocated capacity of the railway route	2 342 395	0
Other	36 762	36 255
Total	**2 434 163**	**36 255**

Given the above activities, the Company records receivables from and payables to SŽDC:

(CZK '000)	31 Dec 2012	31 Dec 2011
Receivables	29 363	5 092
Payables	439 769	505 445
Prepayments made	12 626	9 745
Estimated payables	14 779	10 778
Estimated receivables	3 274	3 455

27.8. TRANSACTIONS WITH THE ČEZ GROUP

The costs incurred in relation to the ČEZ Group in the years ended 31 December 2011 and 2012 primarily include the payments for electricity and amounted to CZK 47,227 thousand and CZK 47,413 thousand as of 31 December 2011 and 2012, respectively.

The income generated by the Company primarily includes the sales of freight transportation. The income generated from transactions with the ČEZ Group amounted to CZK 1,738,205 thousand and CZK 1,334,811 thousand as of 31 December 2011 and 2012, respectively.

Given the above activities, the Company records the following receivables from and payables to the ČEZ Group:

(CZK '000)	31 Dec 2012	31 Dec 2011
Receivables	193 595	260 549
Payables	1 208	6 489
Estimated payables	2 081	61

28. Cash And Cash Equivalents

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash flows statement can be reconciled to the relevant items in the statement of financial position as follows:

(CZK '000)	31 Dec 2012	31 Dec 2011
Cash on hand and cash in transit	1 914	2 164
Cash at bank	156 151	90 361
Total	**158 065**	**92 525**

29. Contracts For Operating Leases

29.1. THE COMPANY AS A LESSEE

Assets under operating leases which are reported off balance sheet as of 31 December 2012 amount to CZK 36,854 thousand. Assets include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the years ended 31 December 2012 and 2011 amounted to CZK 9,521 thousand and CZK 10,838 thousand, respectively.

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

29.2. THE COMPANY AS A LESSOR

Operating leases applies to the lease of traction vehicles, wagons and cisterns owned by the Company with various lease periods.

Income from operating leases of movable assets in 2012 amounts to CZK 514,173 thousand (2011: CZK 551,204 thousand).

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

30. Contractual Obligations Relating To Expenses

As of the balance sheet date, the Company concluded contracts for the purchase of fixed assets in the amount of CZK 2,411,118 thousand, of which CZK 1,233,877 thousand relates to supplies agreed for 2013 and CZK 11,040 thousand relates to supplies agreed for the following years. The remaining amount of CZK 1,166,201 thousand was paid as of 31 December 2012. A significant part of the obligations relating to expenses (CZK 1,067,041 thousand) include investments in railway vehicles.

31. Contingent Liabilities And Contingent Assets

31.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2012, issued by Komerční banka, a.s. from the liability limit of CZK 50 million.

- **List of active bank guarantees provided by ČD Cargo, a. s. as of 31 December 2012**

In favour of	Type of guarantee	Amount	Currency	Until	Reason for the issuance of a bank guarantee
WestInvest Waterfront Towers, s.r.o., Jankovcova 1569/2c, 170 00 Prague 7, Holešovice, Corporate ID 26178338	Lease guarantee	227,267	EUR	30 Sept 2013	Bank guarantee for the fulfilment of all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
HYPARKOS, s.r.o., Škrétova 490/12, 120 00 Prague 2, Corporate ID 27626130	Lease guarantee	16,517,056	CZK	30 June 2013	Bank guarantee in the event that ČD Cargo does not comply with the obligations stipulated by the Contract for the Lease of Buildings and Land in the Logistics Centre in Lovosice

31.2. BANK GUARANTEES RECEIVED

- **List of active bank guarantees received by ČD Cargo, a. s. as of 31 December 2012**

Bank guarantee received from	Guarantee provider	Amount	Currency	Until	Reason for the issuance of a bank guarantee
ŠKODA TRANSPORTATION, a.s., corporate ID 62623753, with its registered office at Borská 2922/32, 301 00 Plzeň	Komerční banka, a.s.	179,550,000	CZK	31 Dec 2013	Bank guarantees arising from contract for work no. ŠT/03/018/08/SML dated 11 December 2008 for the „Modernisation of locomotives from 163 series to 363 series" project.
ŠKODA TRANSPORTATION, a.s., corporate ID 62623753, with its registered office at Borská 2922/32, 301 00 Plzeň	Československá obchodní banka, a.s.	179,550,000	CZK	31 March 2013	

32. Financial Instruments

32.1. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it is able to continue as a going concern while optimising the debt and equity balance.

The capital structure of the Company consists of net debt (borrowings offset by cash and bank balances) and equity of the Company (comprising share capital, funds and retained earnings).

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

The Board of Directors and the Supervisory Board are regularly informed about the development of debt. Any additional significant debt is subject to approval by the Company's statutory bodies, ie the Board of Directors and the Supervisory Board.

32.2. SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Point 2.

32.3. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets (CZK '000)	31 Dec 2012	31 Dec 2011
Cash and bank accounts	158 065	92 524
Financial derivative instruments	17 523	2 975
Loans and receivables	1 847 611	1 930 707
Total	**2 023 199**	**2 026 206**

Financial liabilities (CZK '000)	31 Dec 2012	31 Dec 2011
Financial derivative instruments	100 098	37 957
Trade payables, finance leases measured at amortised cost	9 306 135	8 589 382
Total	**9 406 233**	**8 627 339**

Income from individual categories of financial assets is as follows:

Category of financial assets (CZK '000)	2012	2011	Reported in the income statement line
Interest on cash in bank accounts	1 775	1 868	Other gains
Total	**1 775**	**1 868**	

Impairment losses on financial assets are presented in the Points 'Trade receivables' (Point 18) and 'Other financial assets' (Point 19). No impairment was noted in respect of any other class of financial assets.

32.4. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Treasury function provides services to the Company, monitors and manages the financial risks relating to the operations of the Company. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

32.5. CURRENCY RISK MANAGEMENT

The Company undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. These transactions predominantly include income from international transportation.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

31 Dec 2012 (CZK '000)	EUR	USD	Other	Total
Financial assets	899 823	0	145	899 968
Financial liabilities	371 583	0	1 696	373 279

31 Dec 2011 (CZK '000)	EUR	USD	Other	Total
Financial assets	862 141	0	95	862 236
Financial liabilities	354 046	0	236	354 282

32.5.1. Foreign Currency Sensitivity Analysis

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

- Changes in the value of unhedged cash items denominated in foreign currencies; and
- Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK '000)	2012	2011
Translation of unhedged items denominated in foreign currencies at the end of the period	0	0
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**0**	**0**
Change in the fair value of derivatives at the end of the period	33 024	35 717
Total impact on other comprehensive income	**33 024**	**35 717**

32.5.2. Currency Forwards

In according with its principles, the Company concludes currency forwards and options to cover received payments denominated in foreign currencies.

The table presents foreign currency forwards and options for the sale of foreign currency as of:

- **Foreign currency forwards**

Sale (CZK '000)	Average foreign currency rate	Foreign currency	Nominal value	Fair value
31 Dec 2012	25.626	EUR	23 000	12 560
31 Dec 2011	25.76	EUR	36 000	-855

- **Foreign currency options - collar**

Sale (CZK '000)	Average foreign currency rate	Foreign currency	Nominal value	Fair value
31 Dec 2012	25.17 – 26.20	EUR	12 000	3 123

The Company concluded no outstanding foreign currency forwards and options for the purchase of a foreign currency in the years ended 31 December 2011 and 2012.

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32.6. INTEREST RATE RISK MANAGEMENT
The Company is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Company manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing.

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

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

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

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

(CZK '000)	2012	2011
Interest from loans and lease with variable rate for the period	2 569	2 641
Change in the present value of long-term provisions at the end of the period	8 075	8 531
Change in the fair value of derivatives at the end of the period	67 982	66 471
Total impact on the profit for the period	**78 626**	**77 643**
Change in the fair value of derivatives at the end of the period	39 598	53 340
Total impact on other comprehensive income	**39 598**	**53 340**

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

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period.

- **IRS**

31 Dec 2012	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	3.265%	677 979	-14 595
1 to 5 years	3.265%	1 432 545	-34 665
5 years and more	3.265%	477 901	-8 055
Total			**-57 315**

31 Dec 2011	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	3.265%	773 172	-4 436
1 to 5 years	3.265%	477 515	-25 109
5 years and more	3.265%	128 070	-6 339
Total			**-35 884**

- **Hedging of the Bonds Rate**

31 Dec 2012	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	2.94%	1 000 000	-10 387
1 to 5 years	2.94%	1 000 000	-21 024
5 years and more			0
Total			**-31 411**

31 Dec 2011	Average contracted fixed interest rate	Principal	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	2.94%	500 000	-919
1 to 5 years	2.94%	500 000	-301
5 years and more			0
Total			**-1 220**

32.6.3. Interest Rate Options
In 2011, the Company concluded hedging of interest rates in three lease transactions with variable interest rate. The hedging took the form of a collar, in three individual tranches. The hedging is effective from 2013 to 2019. These are trading derivatives.

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2012	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2011
Less than 1 year	1.13% - 3.13%	762 150	-3 971	0
1 to 5 years	1.13% - 3.13%	686 457	-6 282	733
5 years and more	1.13% - 3.13%	331 369	31	2 242
Total			**-10 222**	**2 975**

The Company will settle the difference between the fixed and variable interest rate on a net basis. Exchanges of payments under interest rate swaps and payments of the interest on loans are concurrent and the amount accumulated in equity is reclassified to the profit or loss in the period in which variable interest rates from the loan impact the profit or loss.

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

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

32.7.1. Analysis of Sensitivity to Changes in Commodity Prices
The exposure to the change in the price of commodities is measured by the sensitivity analysis. The Company is exposed to the risk of changes in prices of commodities due to:

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

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

(CZK '000)	2012
Costs of oil consumption for the period	574 238
Change in the fair value of derivatives at the end of the period	0
Total impact on the profit for the period	**0**
Change in the fair value of derivatives at the end of the period	12 158
Total impact on other comprehensive income	**12 158**

Figures for 2011 are not provided as the price of oil was not hedged as of 31 December 2011.

32.7.2. Commodity Derivatives
The Company used a commodity swap to hedge the price of oil.

The table shows outstanding commodity contracts for the purchase of oil as of 31 December 2012:

Purchase of oil	Hedged value (USD/mt)	Volume of contracts (mt)	Fair value (CZK thousand)
31 Dec 2012	17 348.62	6 900	691

32.8. CREDIT RISK MANAGEMENT
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company.

The Company seeks to trade only with creditworthy counterparties whom the Company reviews on an ongoing basis using publicly available information. The maximum net unhedged exposure to one counterparty in common business activities outside the Group is determined at CZK 50 million. The Company's exposure and credit ratings of its counterparties are continuously monitored.

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

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

32.9. LIQUIDITY RISK MANAGEMENT
The liquidity risk in the Company is managed in respect of the permanent provision of the sufficient volume of available funds necessary for the settlement of financial liabilities.

On a daily basis, the Company assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Company decides on an optimal use of operating financial sources, consisting primarily of overdraft loans. In order to strengthen its financial stability, the Company increases long-term financial sources on a continuous basis. In order to further increase the cash flow stability, the Company used a leaseback for ten modernised 363.5 series traction vehicles in 2012. The Company issued bonds in the aggregate volume of CZK 2.5 billion and has available a bill of exchange programme in the aggregate amount of CZK 1.5 billion which, however, was not used during 2012.

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

31 Dec 2012 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 093 490	1 317 261	500 960	234 959	8 055	3 154 725
Finance lease liabilities	88 316	155 422	623 745	1 610 342	917 854	3 395 679
Variable interest rate instruments	860 066	1 121	84 961	2 173 066	0	3 119 214
Fixed interest rate instruments	0	0	19 643	556 357	0	576 000
Total	**2 041 872**	**1 473 804**	**1 229 309**	**4 574 724**	**925 909**	**10 245 618**

31 Dec 2011 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 054 029	1 295 098	549 133	476 979	2 762	3 378 001
Finance lease liabilities	56 476	112 932	533 831	1 825 563	871 223	3 400 025
Variable interest rate instruments	350 064	709	21 416	540 670	0	912 859
Fixed interest rate instruments	0	0	62 728	1 727 762	0	1 790 490
Total	**1 460 569**	**1 408 739**	**1 167 108**	**4 570 974**	**873 985**	**9 481 375**

The following tables present the Company's expected maturity for its financial assets. The tables have been drawn up based on the undiscounted residual maturities of financial assets including the interest received from these assets. The disclosure of the information on financial assets is necessary for understanding how the Company manages its liquidity risks as it manages the liquidity based on net assets and liabilities.

31 Dec 2012 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 763 210	227 487	18 519	3 211	0	2 012 427
Fixed interest rate instruments	0	0	0	10 772	0	10 772
Total	**1 763 210**	**227 487**	**18 519**	**13 983**	**0**	**2 023 199**

31 Dec 2011 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 300 431	690 294	9 879	7 310	2 242	2 010 156
Fixed interest rate instruments	0	0	0	16 050	0	16 050
Total	**1 300 431**	**690 294**	**9 879**	**23 360**	**2 242**	**2 026 206**

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

32.9.2. Financing Facilities

The Company has access to the following loan facilities:

(CZK '000)	31 Dec 2012	31 Dec 2011
Overdraft loan facilities:		
amount of the loan facility at	1 800 000	1 800 000
balance on	940 494	349 709
Bill of exchange programme		
amount of the programme at	1 500 000	1 500 000

32.10. STRATEGY FOR THE COMPANY'S FUNDING IN SUBSEQUENT YEARS

Lease-Back

In 2012, the Company used the first tranche of the leaseback of modernised traction vehicles of the 363.5 series. For 2013, the Company is planning to use the leaseback for financing the modernisation of other 20 modernised locomotives of the 163 series to the 363.5 series at the acquisition cost of CZK 1,197 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

The Company can use the approved bill of exchange programme if needed. This programme is currently not used.

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, three issues were gradually placed up with the total nominal value of CZK 2 billion. In 2012, another two issues of bonds in the aggregate nominal value of CZK 500 million were placed. 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 2013.

Summary

The structure of funding given 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).

32.11. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.11.1. Fair Values of Financial Instruments Carried at Amortised Cost

The Company considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

32.11.2. Valuation Techniques Applied for the Purposes of Measuring Fair Value

The fair values of financial assets and financial liabilities are determined as follows:

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

32.11.3. Fair Value Measurements Recognised in the Statement of Financial Position

Financial instruments measured at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

All financial instruments measured at fair value recognised by the Company as of 31 December 2012, 31 December 2011 and 31 December 2010 are included in Level 3. Financial assets available for sale include equity investments the fair value of which cannot be reliably determined and hence are measured at cost.

- **Reconciliation of Level 3 fair value measurements of financial assets and liabilities**

(CZK '000)	Available-for-sale financial assets - derivatives
Balance on 31 December 2010	**-147 345**
Total gains or losses	35 190
in profit or loss	18 471
in other comprehensive income	16 719
Sale/settlement	77 172
Balance on 31 December 2011	**-34 983**
Total gains or losses	-52 884
in profit or loss	-43 389
in other comprehensive income	-9 495
Sale/settlement	5 291
Balance on 31 December 2012	**-82 576**

32.11.4. Derivatives – Other Comprehensive Income

(CZK '000)	31 Dec 2012	31 Dec 2011
Total other comprehensive income	-4 204	92 136
Settlement	5 291	77 172
Cost deferral	0	49 947
Change in the fair value	-9 495	35 190
Ineffective part of derivatives	0	-70 173
commodities	0	17 396
currency derivatives	0	-87 569

33. Post Balance Sheet Events

On 7 March 2013, management of the Company approved the sale of 86 traction vehicles to the subsidiary Koleje Czeskie Sp. Z. o.o. The selling price of CZK 718,560 thousand was determined on the basis of expert appraisal no. 1409-7/2013 dated 13 February 2013 which was prepared by a court-appointed expert specialised in economics and mechanical engineering.

On 21 March 2013, the Board of Directors of ČD Cargo, a.s. approved the intention to sell its 100% equity investment in ČD Generalvertretung Wien GmbH to ČD Generalvetretung GmbH and its 100% equity investment in Generálne zastúpenie ČD Cargo, s.r.o. to Koleje Czeskie Sp. z o.o. As of the financial statements approval date, the prices of transferring the equity investments referred to above have not yet been established, these will be determined based on expert appraisals. The transactions are anticipated to be completed by 30 June 2013.

34. Approval of the Financial Statements

The financial statements were approved by the Board of Directors and authorised for issue on 4 April 2013.

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Consolidated Financial Statements (IFRS)

Consolidated Financial Statements for the Year Ended 31 December 2012

prepared under IFRS as adopted by the EU

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET) AS OF 31 DECEMBER 2012

(CZK '000)		31 Dec 2012	31 Dec 2011	1 Jan 2011
Property, plant and equipment	14	14 845 991	13 939 197	14 633 836
Intangible assets	15	237 030	195 870	165 242
Investments in subsidiaries and associates	16	52 162	41 380	31 169
Deferred tax asset	13	587	0	1 906
Trade receivables	18	3 211	6 577	10 098
Other financial assets	19	10 972	19 025	18 401
Other assets	20	434	494	969
Total non-current assets		**15 150 387**	**14 202 543**	**14 861 621**
Inventories	17	89 311	89 955	97 510
Trade receivables	18	1 844 048	1 873 776	1 687 393
Tax receivables	13	7 079	4 009	40 119
Other financial assets	19	96 105	121 126	164 781
Other assets	20	85 783	298 149	92 234
Cash and cash equivalents	28	239 036	165 552	266 206
Total current assets		**2 361 362**	**2 552 567**	**2 348 243**
TOTAL ASSETS		17 511 749	16 755 110	17 209 864
Share capital	21	8 494 000	8 494 000	8 494 000
Reserve and other funds	21	224 156	229 536	150 606
Accumulated loss		-3 480 555	-2 693 013	-2 651 905
Equity attributable to owners of the Company		5 237 601	6 030 523	5 992 701
Non-controlling interests		32 847	27 442	24 216
Total equity		**5 270 448**	**6 057 965**	**6 016 917**
Loans and borrowings	22	4 749 073	4 353 050	2 906 735
Deferred tax liability	13	270 149	89 045	0
Provisions	23	70 070	65 298	65 011
Other financial liabilities	25	243 014	479 740	936 485
Other liabilities	26	375 591	381 498	83 333
Total non-current payables		**5 707 897**	**5 368 631**	**3 991 564**
Trade payables	24	2 438 820	2 142 403	2 775 333
Loans and borrowings	22	1 645 788	969 946	2 769 974
Tax payables	13	9 974	6 980	5 391
Provisions	23	1 250 989	706 993	324 784
Other financial payables	25	508 755	753 255	211 496
Other payables	26	679 078	748 937	1 114 405
Total current payables		**6 533 404**	**5 328 514**	**7 201 383**
TOTAL LIABILITIES		17 511 749	16 755 110	17 209 864

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2012

(CZK '000)		Year ended 31 Dec 2012	Year ended 31 Dec 2011
CONTINUING OPERATIONS			
Revenue from principal operations*	5	14 166 628	14 232 561
Other operating income*	6	662 682	803 402
Purchased consumables and services	7	-8 186 565	-7 747 350
Employee benefit costs	8	-4 414 367	-4 455 997
Depreciation and amortisation	9	-1 885 768	-1 886 359
Other operating losses	10	-664 526	-612 076
Profit (loss) before interest and tax		**-321 916**	**334 181**
Financial expenses	11	-270 366	-301 833
Other gains (losses)	12	-12 628	14 388
Share in the profit of associates and joint ventures		13 463	10 232
Profit (loss) before tax		**-591 447**	**56 968**
Income tax expense	13	-196 271	-94 927
Loss for the period from continuing operations		**-787 718**	**-37 959**
DISCONTINUED OPERATIONS			
Profit from discontinued operations		0	0
Loss for the period		**-787 718**	**-37 959**
Attributable to equity holders of the parent company		-787 542	-41 108
Attributable to non-controlling interests		-176	3 149

** Restated figures as of 31 December 2011, refer to Point 2.19.*

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
Loss for the year	-787 718	-37 959
Foreign exchange rate gains or losses from the transfer of foreign operations	-2 135	60
Cash flow hedging	-4 203	92 136
Relating deferred income tax	799	-13 383
Other comprehensive income (loss) for the year	**-5 539**	**78 813**
Total comprehensive income (loss) for the year	**-793 257**	**40 854**
Attributable to equity holders of the parent company	-793 081	37 705
Attributable to non-controlling interests	-176	3 149

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

(CZK '000)	Year ended 31 Dec 2012	Year ended 31 Dec 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year before tax	-591 447	56 968
Financial expenses	270 366	301 833
Profit from the sale and disposal of non-current assets	-35 660	-35 945
Depreciation and amortisation of non-current assets	1 885 768	1 886 359
Impairment (increase in the value) of non-current assets	-47 369	106 346
Impairment of trade receivables	34 954	8 624
Foreign exchange rate losses	6 809	0
Other	-12 602	-11 856
Cash flow from operating activities before changes in working capital	**1 510 819**	**2 312 329**
Increase in trade receivables	-15 694	-179 633
Decrease (increase) in inventories	-1 775	4 827
Decrease (increase) in other assets	237 903	-176 872
Increase (decrease) in trade payables	606 304	-284 018
Increase in provisions	548 768	382 496
Increase (decrease) in other payables	-650 220	46 173
Total changes in working capital	**725 286**	**-207 027**
Cash flows from operating activities	**2 236 105**	**2 105 302**
Interest paid	-152 017	-305 878
Income tax paid	-21 210	21 547
Net cash flow from operating activities	**2 062 878**	**1 820 971**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for property, plant and equipment	-2 969 643	-1 466 536
Proceeds from the sale of property, plant and equipment	14 005	16 335
Costs of acquisition of intangible assets	-86 490	-65 872
Received interest	1 818	1 909
Net cash flows (used in) from investment activities	**-3 040 310**	**-1 514 164**
CASH FLOWS FROM FINANCING ACTIVITIES		
Use of loans and borrowings	3 868 522	3 324 079
Repayments of loans and borrowings	-2 817 606	-3 731 540
Net cash flow from financing activities	**1 050 916**	**-407 461**
Net increase in cash and cash equivalents	**73 484**	**-100 654**
Cash and cash equivalents at the beginning of the re-porting period	165 552	266 206
Cash and cash equivalents at the end of the reporting period	**239 036**	**165 552**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(CZK '000)	Share capital	Reserve and other funds	Accumulated loss	Equity attributable to equity holders of the parent company	Non-controlling interests	Total equity
Balance on 31 December 2010	**8 494 000**	**150 606**	**-2 651 905**	**5 992 701**	**24 216**	**6 016 917**
Share capital change						0
Derivatives		92 136		92 136		92 136
Deferred tax		-13 383		-13 383		-13 383
Profit (loss) for the year			-41 108	-41 108	3 149	-37 959
Allocation to the reserve fund		101		101	77	178
Foreign exchange rate gains or losses from the transfer of foreign operations		60		60		60
Allocation to other funds		16		16		16
Balance on 31 December 2011	**8 494 000**	**229 536**	**-2 693 013**	**6 030 523**	**27 442**	**6 057 965**
Share capital change				0	5 488	5 488
Derivatives		-4 203		-4 203		-4 203
Deferred tax		799		799		799
Loss for the year			-787 542	-787 542	-176	-787 718
Allocation to the reserve fund		184		184	93	277
Foreign exchange rate gains or losses from the transfer of foreign operations		-2 135		-2 135		-2 135
Use of other funds		-25		-25		-25
Balance on 31 December 2012	**8 494 000**	**224 156**	**-3 480 555**	**5 237 601**	**32 847**	**5 270 448**

1. General Information

1.1. GENERAL INFORMATION

ČD Cargo, a.s. (hereinafter the "Parent 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 Parent Company's registered office is located at Jankovcova 1569/2c, Prague 7, Holešovice.

As of 31 December 2012, the reported share capital of the Parent Company, of CZK 8,494,000 thousand which was fully paid in.

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

The company is the Parent Company of the ČD Cargo Group (the 'Group'). The consolidated financial statements have been prepared as of and for the year ended 31 December 2012. The reporting period is the calendar year, i.e. from 1 January 2012 to 31 December 2012.

1.2. PRINCIPAL OPERATIONS

The principal activities of the Group include the provision of railway transportation of goods with the set of relating services. The aim of the Group 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 into two principal segments:

- Transportation of complete trains; and
- Transportation of individual wagon loads.

The above segments are structured by the type of transportation as follows:

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

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

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

In terms of the volume of transportation, the Parent Company is one of the ten most significant railway companies in Europe and the European Union.

1.3. 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.

1.4. STATUTORY BODIES OF THE PARENT COMPANY

The sole owner of the Parent Company is České dráhy, a.s. which acts as the Parent Company's general meeting, the supreme body of the Parent Company, in the capacity as the sole shareholder of the Parent Company. The statutory body of the Parent Company is the three-member Board of Directors, the supervisory body is the five-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.

The composition of Parent Company's Bodies as of 31 December 2012:

Board of Directors

- Chairman: Petr Žaluda
- Member: Petr May
- Member: Vlastimil Chobot

On 24 April 2012, České dráhy, a.s., as the sole shareholder of the Parent Company, acting in the capacity of the general meeting, decided to decrease the number of members of the Board of Directors from four to three members, recalled Jan Vlasák and Sonny Sonnberger as members of the Board of Directors and appointed Roman Vallovič a member of the Board of Directors with effect from 24 April 2012.

At its meeting held on 5 September 2012, the Board of Directors discussed the written announcement on the resignation of the member, Jiří Špička. His position of the member of the Board of Directors expired on 5 September 2012.

On 25 September 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Petr May as a member of the Board of Directors with effect from 25 September 2012.

On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Roman Vallovič as a member of the Board of Directors and appointed Petr Žaluda a member of the Board of Directors with effect from 2 October 2012.

Gustav Slamečka resigned from the position of a member of the Board of Directors by making a written announcement to the Board of Directors dated 8 October 2012. At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors discussed and acknowledged this announcement in its Resolution no. 1365/2012 and concurrently approved 8 October 2012 as the expiration date of his position.

At its 15th extraordinary meeting held on 8 October 2012, the Board of Directors appointed Petr Žaluda as Chairman of the Board of Directors with effect from 9 October 2012 pursuant to Resolution No. 1366/2012.

On 9 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, appointed Vlastimil Chobot a member of the Board of Directors with effect from 9 October 2012.

Supervisory Board

- Member: Radek Nekola
- Member: Jindřich Nohal
- Member: Zdeněk Prosek
- Member: Milan Špaček
- Member: Miroslav Zámečník

On 2 October 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Petr Žaluda as a member of the Supervisory Board.

Administration Board

- Chairman: Vít Veselý
- Member: Jaroslav Novák
- Member: Michal Zděnek

On 14 February 2012, Vít Veselý was appointed Chairman of the Administration Board on its 26th meeting.

On 24 July 2012, České dráhy, a.s., as the sole shareholder of the Company, acting in the capacity of the general meeting, recalled Jiří Franc and Jakub Kopřiva as members of the Administration Board and appointed Jaroslav Novák and Michal Zděnek members of the Supervisory Board.

Audit Committee

- Chairman: Oldřich Vojíř
- Member: Miroslav Zámečník
- Member: Libor Joukl

No changes were made in this body during the reporting period.

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1.5. DEFINITION OF THE CONSOLIDATION GROUP

1.5.1. Entities Included in the Consolidation

Name of the entity	Registered office	Corporate ID	Ownership percentage*)	Degree of influence
ČD Cargo, a. s.	Prague 7, Jankovcova 1569/2c	28196678		Parent company
CD Generalvertretung GmbH	Kaiserstrasse 60, 60329 Frankfurt am Main, Germany	DE814191687	100.00	Control
CD - Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Vienna, Austria	FN291407s	100.00	Control
Koleje Czeskie Sp. z o.o.	Ul. Grzybowska nr. 4, lok. 3, 00-131 Warsaw, Poland	140769114	100.00	Control
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozská 4/B, 82109 Bratislava, Slovak Republic	44349793	100.00	Control
Auto Terminal Nymburk, s.r.o.	Jankovcova 1569/2c, 170 00 Prague 7	24234656	100.00	Control
Terminal Brno, a.s.	Brno, K terminálu 614/11, 619 00	28295374	66.94	Control
ČD-DUSS Terminál, a.s.	Lovosice, Lukavecká 1189, 410 02	27316106	51.00	Control
ČD Logistics, a.s.	Prague 1, Nové Město, Opletalova 1284/37, 110 00	27906931	56.00	Control
ČD Trans, s.r.o.*	Leninova 22, 224005 Brest, Belarus	200019773	51.00	Significant
RAILLEX, a.s.	Prague 5, Hlubočepy, Trnkovo náměstí 3/ 1112, 152 00	27560589	50.00	Significant
BOHEMIAKOMBI,spol. s r.o.	Prague 1, Opletalova 6, 110 00	45270589	30.00	Significant
Ostravská dopravní společnost, a.s..	Ostrava, Přívoz, U Tiskárny 616/9, 702 00	60793171	20.00	Significant

** The company was dissolved with liquidation as of 1 April 2012*

Name of the entity	Principal activities
CD Generalvertretung GmbH	Mediation of services in freight transportation on behalf of and for ČD Cargo,a.s., general representation, and comprehensive information services for customers of ČD Cargo, a.s.
Koleje Czeskie Sp. z o.o.	Mediation of services in freight transportation on behalf of and for ČD Cargo, a.s., general representation, comprehensive general information services for customers on the territory of Poland, Lithuania, Latvia and Estonia
CD Generalvertretung Wien GmbH	Mediation of services in freight transportation, business representation in Austria, Italy, parts of Hungary, Switzerland and former Yugoslavia.
Generálne zatúpenie ČD Cargo, s.r.o.	Business representation and mediation services in transportation and services.
Terminal Brno, a.s.	Storage of goods and handling of cargo (storage of shipments in the combined transportation - containers, exchangeable superstructures and road semi-trailers), technical activities in transportation, real estate activities and facility management.
ČD-DUSS Terminál, a.s.	Operations of container terminals, including additional services (road collection and distribution of shipments, repairs and stock-pile of load units).
ČD Trans, s.r.o.	Transportation and transport of cargo including services in the Brest terminal.
ČD Logistics, a.s.	Storage and handling of material.
Auto Terminal Nymburk, s.r.o	Storage of goods and handling of cargo (storage of shipments in combined transportation – containers, exchangeable extensions and semitrailers), technical activities in transportation, real estate activities and administration and maintenance of real estate.
RAILLEX, a.s.	Cargo handling and technical services in transportation.
BOHEMIAKOMBI, spol. s r.o.	Mediation of services in transportation except for the transportation by own vehicles.
Ostravská dopravní společnost, a.s.	Railway transportation and lease of locomotives.

The consolidation group is hereinafter referred to as the “Group”.

2. Significant Accounting Policies

2.1. STATEMENT OF COMPLIANCE

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

2.2. BASIS OF PREPARATION

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

2.3. BASIS OF CONSOLIDATION

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

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

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

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

2.4. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date (see point 3.16.2); and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The above procedure is used in all business combinations made on or after 1 January 2010.

2.5. REVENUE RECOGNITION

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

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

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

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

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

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

In all finance leases, entities in the Group are lessees.

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

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

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

2.7. FOREIGN CURRENCIES
Each entity in the Group determines its functional currency according to the environment in which it operates. Given the economic substance of transactions and the environment in which the Group operates, the presentation currency used in the consolidated financial statements is the Czech crown (CZK). The Czech crown is also the functional currency of the parent company.

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

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

For the purposes of presenting the consolidated financial statements, the monetary items denominated in foreign currencies are translated into CZK as of the balance sheet date using the exchange rate of the Czech National Bank ruling as of that date. Income and expenses are retranslated on the basis outlined above, ie using the fixed exchange rate. With regard to foreign subsidiaries, income and expenses denominated in foreign currencies are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in the statement of comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

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

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

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

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

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

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

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

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

2.11. TAXATION
The income tax includes current tax payable and deferred tax.

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

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

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

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

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

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

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

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

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

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

The Group capitalises major (periodical) repairs of rail vehicles. The costs of repairs are recorded as a separate asset item (component) and are depreciated over the useful life of repairs. The depreciation period of the components is determined for the series of rail vehicles and type of the components (periodical repairs – major, significant and overhaul). The average period of depreciation is six years.

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

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

2.14. IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS
At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

2.15. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES
A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

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

The results and assets and liabilities of joint ventures and associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture or an associate is initially recognised in the consolidated statement of financial position at cost and subsequently adjusted to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

When a Group entity transacts with a joint venture or associate of the Group, profits and losses arising from the transactions with the joint venture or associate are reported in the Group's consolidated financial statements to the extent of the interest in the relevant associate that is not owned by the Group.

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

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

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

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

2.17.1. Restructuring Provision
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

2.18. FINANCIAL INSTRUMENTS
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

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

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

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

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

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

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

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

2.18.3. Financial Assets Available for Sale
Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

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

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

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

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

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

As of the balance sheet date, assets are impaired depending on the anticipated recoverability of receivables based on an individual assessment of a receivable.

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

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

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

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

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

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

2.18.10. Derivative Financial Instruments
The Group enters into a variety of derivative financial instruments to manage its exposure to currency and commodity risks.

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

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

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

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

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

2.18.13. Financial Derivatives Held for Trading
Derivatives that do not meet the conditions for hedging derivatives are classified by the Group as derivatives held for trading.

The change in the fair value of derivatives held for trading is recognised as an expense or income from derivative transactions.

2.19. CHANGES IN ACCOUNTING POLICIES

In the year ended 31 December 2012, the Group changed the reporting of the short-term lease of traction vehicles and wagons.

In the consolidated financial statements for the year ended 31 December 2011, the above-stated lease of CZK 551 million was reported by the Group in the statement of profit or loss line 'Revenue from principal operations' in 'Other revenues from intra-state freight transportation'. In the consolidated financial statements for the year ended 31 December 2012, the above-stated lease of CZK 514 million is reported in the statement of profit or loss line 'Other operating income' under 'Rental income'.

In the consolidated financial statements for the year ended 31 December 2012, the Group reclassified the above-stated lease of CZK 551 million for the year ended 31 December 2011 from 'Revenue from principal operations' to 'Other operating income' for the sake of the comparability of the financial statements.

3. Adoption of New and Revised International Financial Reporting Standards

3.1. STANDARDS AND INTERPRETATIONS EFFECTIVE FOR ANNUAL PERIODS ENDED 31 DECEMBER 2012

During the year ended 31 December 2012, the following standards, revised standards and interpretations became effective:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 7 – Financial Instruments Disclosures – Transfers of Financial Assets	1 July 2011

The above standards and interpretations have no impact on the presentation and disclosures or the presented financial results.

3.2. STANDARDS AND INTERPRETATIONS ADOPTED IN ADVANCE OF THEIR EFFECTIVE DATES

The Group adopted no standards or interpretations before their effective dates.

3.3. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

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

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
Removal of Fixed Dates for First-time Adopters	2 July 2011
Government Loans	1 January 2013
Temporary Exemption from Disclosure of the Information Required by IFRS 7	1 July 2010
Temporary Exemption from the Requirements of IFRS 9	1 July 2010
Severe Hyperinflation and Removal of Fixed Dates	1 July 2011
Improvements to 2010 – revised IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13	1 July 2010 or 1 January 2011
IFRS 7	
Extended Disclosure Requirements about Derecognition	1 July 2013
Amendments to IFRS 7 Financial Instruments: Disclosure and IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2013 and 1 January 2014
IFRS 9	
Financial Instruments – Classification and Measurement	1 January 2015
Amendments to IFRS 9 – New Mandatory Effective Date and Transition Disclosures	1 January 2015
IFRS 10 – Consolidated Financial Statements:	
Transition Guidance	1 January 2013
Investment Entities	1 January 2014
IFRS 11 – Joint Arrangements	1 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
Improvements to IFRS 2009 – 2011	1 January 2013
IAS 1 – Presentation of Financial Statements: Presentation of Items of Other	
Comprehensive Income for Items that will be Reclassified to the Profit or Loss	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
Income Taxation – Deferred Tax – Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits – Eliminating an Option of the Corridor Approach, Disclosure	1 January 2013
IAS 24 – Related Party Disclosures	1 January 2011
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IAS 32 – Classification of Rights Issues	1 February 2010
IFRIC 14 – Prepayments for a Minimum Funding Requirement	1 January 2011
Revised IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Minimum Funding Requirement Contributions that would be Required for Future Service	1 January 2011
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Management of the Group anticipates that the adoption of these standards, revised standards and interpretations will have no material impact on the Group in the following periods, except for the detailed presentation under IFRS 12 and IAS 1.

The above standards and interpretations have no impact on the disclosure and presentation or on the disclosed financial results, with the following exceptions:

The Group used an exception listed in paragraphs 25 – 27 of revised IAS 24, effective for annual periods beginning on o rafter 1 January 2011. The exception relates to the disclosure of related party transactions in respect of state controlled entities (refer to the Point 'Related Party Transactions').

3.4. STANDARDS AND INTERPRETATIONS THAT ARE ISSUED BUT NOT YET ADOPTED BY THE EUROPEAN UNION

At the consolidated balance sheet date, some of the standards and interpretations listed in the prior point have not been adopted by the European Union:

Amended, new and revised standards and interpretations	Effective for annual periods beginning on or after
IFRS 1	
Removal of Fixed Dates for First-time Adopters	1 July 2011
Severe Hyperinflation	1 July 2011
Government Loans	1 January 2013
IFRS 7	
Extended Disclosure Requirements about Derecognition	1 July 2013
Amendments to IFRS 7 Financial Instruments: Disclosure and IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2013 and 1 January 2014
IFRS 9	
Financial Instruments – Classification and Measurement	1 January 2015
Amendments to IFRS 9 – New Mandatory Effective Date and Transition Disclosures	1 January 2015
IFRS 10 – Consolidated Financial Statements:	
Transition Guidance	1 January 2013
Investment Entities	1 January 2014
IFRS 11 – Joint Arrangements	1 January2013
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 – Fair Value Measurement	1 January 2013
Improvements to IFRS 2009 – 2011	1 January 2013
IAS 1 – Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12 – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 – Employee Benefits	1 January 2013
IAS 27 (2011) – Separate Financial Statements	1 January 2013
IAS 28 (2011) – Investments in Associates and Joint Ventures	1 January 2013
IAS 32 – Offsetting of Financial Assets and Financial Liabilities	1 January 2014
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Point 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

4.1. USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

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

4.2. IMPAIRMENT OF ASSETS

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

4.3. REVENUE AND EXPENSES FROM INTERNATIONAL TRANSPORTATION

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

4.4. MEASUREMENT OF FINANCIAL DERIVATIVES

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

4.5. INCOME TAXATION

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

4.6. PROVISION FOR EMPLOYEE BENEFITS

The provision for employee benefits includes the claim of employees for a financial contribution when they celebrate important birthdays, financial contribution upon retirement and payment of treatment fees including salary refunds in wellness stays.

In calculating the provision, the Group used an actuarial model which is based on the up-to-date employee information (number of employees, date of the old-age pension claim, average salary, amount of the financial contribution) and anticipated parameters established on the basis of a reasonable estimate and publicly available statistical documents: anticipated fluctuation of employees, anticipated increase in salaries, anticipated inflation level, likelihood of death or disablement according to the data of the Czech Statistical Office. Cash flows are discounted to the present value using the discount rate derived from the yield level of 10-year government bonds.

4.7. PROVISIONS FOR LEGAL DISPUTES AND BUSINESS RISKS

The Group is involved in a number of court and out-of-court commercial disputes. Where the criteria for the recognition of provisions are met, the Group creates provisions for these disputes on the basis of the best available information and estimates. However, the actual outcome of the disputes may differ from these estimates.

4.8. RESTRUCTURING PLAN

In 2012, management of the parent company ČD Cargo, a.s. undertook a series of measures designed to strengthen the liquidity of the Company in the short-term and create conditions for achieving more favourable economic results in the medium-term and consequently ensure the stability of the Company in the following years. The implemented measures have served a basis for preparing a medium-term business plan of the Company.

5. Revenue from Principal Operations

All of the below additional information on the statement of profit or loss relates to continuing operations.

(CZK '000)	2012	2011
Revenue from freight transportation:	**12 965 721**	**12 873 128**
Revenue from freight transportation - local	4 756 602	5 722 131
Revenue from freight transportation – foreign	8 209 119	7 150 997
Other revenue from freight transportation:	**1 091 504**	**1 201 858**
Other revenue from freight transportation - local	310 312	259 748
Other revenue from freight transportation - foreign	781 192	942 110
Other revenue related to transportation	**109 403**	**157 575**
Total revenue from principal operations – continuing operations	**14 166 628**	**14 232 561**

Other revenue from freight transportation predominantly includes the revenue from freight transportation from other transporters and owners of railways and revenue from other transportation.

With respect to the volume of billed services, the principal local customers include the following:

- ČEZ, a. s.
- CARBOSPED, spol. s r. o.
- MORAVIA STEEL, a. s.
- NH TRANS SE
- AWT Čechofracht, a. s.
- ČD Logistics, a. s.

Foreign customers predominantly include railway transportation companies (national transporters) and other entities. With respect to the volume of billed services, the principal companies are as follows:

Railway transportation companies (national transporters)

- Železničná spoločnost´ Cargo Slovakia, a. s.
- DB Schenker Rail Deutschland AG
- PKP Cargo SA
- Rail Cargo Austria AG

Other companies

- Express Slovakia „Mezinárodná preprava a. s."
- A.P. Möller - Maersk A/S
- ČD Generalvertretung GmbH
- DB Schenker Rail Automotiv
- BLG AutoRail GmbH

6. Other Operating Income

(CZK '000)	2012	2011
Gain from disposal of property, plant and equipment and investment property	33 510	36 089
Gain from the sale of inventory	5 740	4 352
Rental income	451 537	577 960
Compensations for deficits and damage	48 652	26 438
Gain on material	20 162	21 136
Other subsidies	3	22 020
Other	103 078	115 407
Total other operating income – continuing operations	**662 682**	**803 402**

Other operating income predominantly includes income from contractual penalties and default interest and income from compensation of damage for railway traffic closures in relation to Správa železniční dopravní cesty, s.o. (refer to Point 27.7.).

7. Purchased Consumables and Services

(CZK '000)	2012	2011
Traction costs	**-1 821 424**	**-1 798 717**
Traction fuel (diesel)	-570 060	-619 084
Traction electricity	-1 251 364	-1 179 633
Payment for the use of railway route	**-2 220 595**	**-2 342 865**
Other purchased consumables and services	**-4 144 546**	**-3 605 768**
Consumed material	-330 984	-366 730
Consumed other energy	-109 442	-105 714
Consumed fuel	-13 246	-10 869
Repairs and maintenance	-279 847	-239 961
Travel costs	-41 037	-46 387
Telecommunication, data and postal services	-68 591	-89 291
Other rental	-186 914	-172 541
Rental for rail vehicles	-724 865	-757 612
Transportation charges	-1 695 634	-1 146 234
Services associated with the use of buildings	-35 087	-27 032
Operational cleaning of rail vehicles	-9 188	-9 175
Border area services	-181 181	-178 853
Advertising and promotion costs	-60 558	-74 864
Other services	-671	-1 168
	-407 301	-379 337
Total purchased consumables and services – continuing operations	**-8 186 565**	**-7 747 350**

Other services predominantly include the costs of education, IT, healthcare, advisory, fire protection and security.

8. Employee Benefit Costs

(CZK '000)	2012	2011
Payroll costs	-2 994 936	-3 103 568
Severance pay	-140 022	-49 142
Statutory social security and health insurance	-1 008 179	-1 038 509
Benefits resulting from the collective agreement	-53 111	-46 422
Statutory social costs	-191 425	-196 197
Other employee benefit costs	-26 694	-22 159
Total employees benefit costs – continuing operations	**-4 414 367**	**-4 455 997**

9. Depreciation and Amortisation

(CZK '000)	2012	2011
Depreciation of property, plant and equipment	-1 840 439	-1 851 112
Amortisation of intangible assets	-45 329	-35 247
Total depreciation and amortisation – continuing operations	**-1 885 768**	**-1 886 359**

10. Other Operating Income (Losses)

(CZK '000)	2012	2011
Change in provisions	-549 660	-372 223
Losses from impaired receivables	-33 400	-7 070
Reversal of losses from impaired property, plant and equipment and property investments	47 369	-91 077
Taxes and fees	-4 599	-9 985
Other operating expenses	-124 236	-131 721
Total other operating losses – continuing operations	**-664 526**	**-612 076**

Other operating expenses predominantly include damages and insurance payments.

11. Financial Expenses

(CZK '000)	2012	2011
Interest on bank overdraft accounts and loans	-12 431	-18 533
Interest on finance lease payables	-148 747	-154 466
Interest expenses - bonds	-52 856	0
Other interest expenses	-54 843	-125 704
Unwinding of the discount of provisions	-1 489	-3 130
Total financial expenses – continuing operations	**-270 366**	**-301 833**

12. Other Gains (Losses)

(CZK '000)	2012	2011
Net foreign exchange gains (losses)	-12 692	28 387
Loss from the sale of securities and equity investments	-737	0
Received interest	1 819	1 978
Banking fees	-3 657	-5 280
Actuarial gains (losses)	2 452	-10 905
Other	187	208
Total other gains (losses) - continuing operations	**-12 628**	**14 388**

13. Income Taxation

13.1. INCOME TAX REPORTED IN PROFIT OR LOSS

(CZK '000)	2012	2011
Current income tax for the period reported in the statement of profit or loss	-14 955	-17 359
Deferred tax recognised in the statement of profit or loss	-181 316	-69 936
Deferred tax reclassified from equity to profit or loss	0	-7 632
Total tax charge relating to continuing operations	**-196 271**	**-94 927**

13.2. INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

(CZK '000)	2012	2011
Remeasurement of financial instruments recognised as cash flow hedging	799	-13 383
Total income tax recognised in other comprehensive income	**799**	**-13 383**

13.3. DEFERRED TAX

(CZK '000)	Unutilised tax losses	Non-current assets	Provisions	Leases	Receivables	Derivatives	Other	Total
Balance on 1 Jan 2011	**-118 213**	**131 669**	**-73 981**	**89 419**	**-5 702**	**-27 997**	**2 899**	**-1 906**
Deferred tax recognised in profit or loss	97 307	-19 681	-72 543	51 707	687	7 634	12 457	77 568
Deferred tax recognised in other comprehensive income	0	0	0	0	0	13 383	0	13 383
Balance on 31 Dec 2011	**-20 906**	**111 988**	**-146 524**	**141 126**	**-5 015**	**-6 980**	**15 356**	**89 045**
Deferred tax recognised in profit or loss	13 810	187 731	-104 414	91 527	-2 678	0	-4 660	181 316
Deferred tax recognised in other comprehensive income	0	0	0	0	0	-799	0	-799
Balance on 31 Dec 2012	**-7 096**	**299 719**	**-250 938**	**232 653**	**-7 693**	**-7 779**	**10 696**	**269 562**

14. Property, Plant and Equipment

Cost (CZK '000)	Balance on 1 Jan 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2012
Land	126 194	0	0	0	126 194	0	0	0	126 194
Structures	1 208 178	77 584	346	757	1 286 173	95 525	2 009	0	1 379 689
Individual movable assets	36 313 708	1 223 908	1 062 841	-757	36 474 018	2 521 322	888 754	0	38 106 586
Machinery, equipment, and furniture and fixtures	466 106	46 364	22 198	27 163	517 435	62 512	29 677	20 593	570 863
Vehicles	29 794 065	1 086 172	811 258	34 370	30 103 349	2 376 937	722 109	-1 015 122	30 743 055
Vehicles acquired under finance leases	5 966 841	86 607	209 434	-15 968	5 828 046	81 790	130 361	1 002 255	6 781 730
Other	86 696	4 765	19 951	-46 322	25 188	83	6 607	-7 726	10 938
Other assets	0	0	0	0	0	0	0	0	0
Assets under construction	116 365	1 135 696	0	-1 105 397	146 664	2 487 693	0	-2 469 821	164 536
Prepayments	239 432	5 968	27	0	245 373	1 479 130	1 618 773	0	105 730
Total	**38 003 877**	**2 443 156**	**1 063 214**	**-1 105 397**	**38 278 422**	**6 583 670**	**2 509 536**	**-2 469 821**	**39 882 735**

Accumulated depreciation (CZK '000)	Balance on 1 Jan 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2012
Structures	647 146	31 547	583	105	678 215	32 051	1 102	0	709 164
Individual movable assets	22 707 626	1 893 178	1 046 035	-105	23 554 664	1 799 320	1 085 381	0	24 268 603
Machinery, equipment, and furniture and fixtures	338 333	29 660	22 207	7 257	353 043	39 860	25 434	18 230	385 699
Vehicles	20 943 249	1 506 123	794 538	1 133	21 655 967	1 476 097	923 034	-223 550	21 985 480
Vehicles acquired under finance leases	1 384 168	353 719	209 434	0	1 528 453	282 659	130 361	207 040	1 887 791
Other	41 876	3 676	19 856	-8 495	17 201	704	6 552	-1 720	9 633
Total	**23 354 772**	**1 924 725**	**1 046 618**	**0**	**24 232 879**	**1 831 371**	**1 086 483**	**0**	**24 977 767**

Impairment (CZK '000)	Balance on 1 Jan 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2011	Additions	Disposals	Reclassification	Balance on 31 Dec 2012
Individual movable assets	15 269	102 646	15 269	0	102 646	58 977	102 646	0	58 977
Vehicles	15 269	102 646	15 269	0	102 646	58 977	102 646	0	58 977
Prepayments	0	3 700	0	0	3 700	5 000	8 700	0	0
Total	**15 269**	**106 346**	**15 269**	**0**	**106 346**	**63 977**	**111 346**	**0**	**58 977**

Reclassifications predominantly include transfers of asset items between individual groups (IAS 16, IAS 17), in financial leaseback of wagons and traction vehicles.

Net book value (CZK '000)	Balance on 1 Jan 2011	Balance on 31 Dec 2011	Balance on 31 Dec 2012
Land	126 194	126 194	126 194
Buildings	561 032	607 958	670 525
Individual movable assets	13 590 813	12 816 708	13 779 006
Machinery, equipment, and furniture and fixtures	1 27 773	164 392	185 164
Vehicles	8 835 547	8 344 736	8 698 598
Vehicles acquired under finance leases	4 582 673	4 299 593	4 893 939
Other	44 820	7 987	1 305
Other assets	0	0	0
Assets under construction	116 365	146 664	164 536
Prepayments	239 432	241 673	105 730
Total	**14 633 836**	**13 939 197**	**14 845 991**

During the year ended 31 December 2012, the volume of property, plant and equipment did not change significantly.

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, wagons) used for the operations of the railway freight transportation. This item was impaired in the amount of the difference between the net book value and the recoverable value of CZK 58,977 thousand.

Principal additions to individual movable assets in the year ended 31 December 2012 included the modernisation of the 363.5 series traction vehicles of CZK 1,108,447 thousand, major and general repairs (components) of traction vehicles of CZK 530,248 thousand, inspection repairs (components) of wagons of CZK 302,350 thousand and improvements on wagons of CZK 231,926 thousand. Additions to inspection repairs (components) of leased assets in 2012 amounted to CZK 166,677 thousand.

In the years ended 31 December 2012 and 2011, the Parent Company acquired tangible assets recognised in expenses in the amounts of CZK 30,360 thousand and CZK 31,854 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 105,242 thousand as of 31 December 2012 and principally relate to the ongoing modernisation of traction vehicles from series 163 to series 363.5.

In 2012, the Parent Company decided to optimise its rolling stock and selected 4,700 wagons and approximately 100 traction vehicles for scrapping. In respect of this planned transaction, the Parent Company reported an impairment of vehicles of CZK 58,977 thousand and recognised an extraordinary write-off of CZK 101,655 thousand.

Depreciation was calculated using the following useful lives:

Buildings	20 – 50 years
Structures	20 – 50 years
Locomotives components: *major repair* *general repair*	20 – 25 years 2-6 years 8-24 years 4-12 years
Freight wagons components – technical inspection	30 years 2-6 years
Machinery and equipment	8 – 20 years

14.1. ASSETS PLEDGED AS COLLATERAL

As of 31 December 2012 and 2011, no assets of the Parent Company were pledged as collateral.

15. Intangible Assets

Cost (CZK '000)	Software	Valuable rights	Assets under construction	Total
Balance on 1 Jan 2011	282 585	98 174	41 900	**422 659**
Additions	49 302	16 930	67 254	**133 486**
Disposals	0	100	0	**100**
Reclassification	-3 345	3 345	-67 160	**-67 160**
Balance on 31 Dec 2011	328 542	118 349	41 994	**488 885**
Additions	31 108	4 755	84 186	**120 049**
Disposals	0	0	0	**0**
Reclassification	0	0	-33 163	**-33 163**
Balance on 31 Dec 2012	359 650	123 104	93 017	**575 771**

Accumulated amortisation (CZK '000)	Software	Valuable rights	Total
Balance on 1 Jan 2011	209 103	48 314	**257 417**
Additions	28 112	7 586	**35 698**
Disposals	0	100	**100**
Reclassification	-93	93	**0**
Balance on 31 Dec 2011	237 122	55 893	**293 015**
Additions	33 340	12 386	**45 726**
Disposals	0	0	**0**
Reclassification	0	0	**0**
Balance on 31 Dec 2012	270 462	68 279	**338 741**

Reclassifications predominantly include transfers of asset items between individual groups of assets (IAS 38) relating to software and valuable rights.

Net book value (CZK '000)	Software	Valuable rights	Assets under construction	Total
Balance on 1 Jan 2011	73 482	49 860	41 900	**165 242**
Balance on 31 Dec 2011	91 420	62 456	41 994	**195 870**
Balance on 31 Dec 2012	89 188	54 825	93 017	**237 030**

Amortisation costs were reported in the statement of profit or loss line 'Depreciation and amortisation'. The amortisation was calculated using useful lives of 3 to 8 years.

Intangible fixed assets predominantly include the formation yards information systems, SAP upgrade, the Microsoft Enterprise Agreement licence, OPT information system, the central wagon navigation information system and other systems used by the Parent Company.

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

16. Investments in Associates

■ Information on Associates

Name of the entity (CZK '000)	Registered office	Value of investment as of 31 Dec 2012	Value of investment as of 31 Dec 2011
BOHEMIAKOMBI, spol. s r.o.	Opletalova 6, 11000 Prague 1	4 514	4 421
Ostravská dopravní společnost, a.s.	U Tiskárny 616/9, 70200 Ostrava, Přívoz	37 955	32 905
RAILLEX a.s.	Trnkovo nám. 3, 15200 Prague 5	9 693	4 054
Total		**52 162**	**41 380**

Name of the entity	Principal activities	Investment as of 31 Dec 2012	Investment as of 31 Dec 2011
BOHEMIAKOMBI, spol. s r.o.	Mediation of transportation services except for the transportation by own vehicles.	30%	30%
Ostravská dopravní společnost, a.s.	Railway transportation and lease of locomotives.	20%	20%
RAILLEX a.s.	Cargo handling and technical services in transportation.	50%	50%

■ Summary of Financial Information on Associates

(CZK '000)	31 Dec 2012	31 Dec 2011
Total assets	557 380	476 417
Total liabilities	333 172	289 008
Net assets	224 208	187 409
Share of the Company in associates' net assets	**52 162**	**41 380**

(CZK '000)	2012	2011
Total income	1 656 284	1 229 427
Profit for the period	50 307	39 819
Share of the Company in associates' profit for the period	**13 463**	**10 232**

17. Inventories

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Spare parts and other components for rail vehicles and locomotives	8 351	9 044	26 091
Other machinery, tools and equipment and their spare parts	65 799	66 690	56 939
Fuels, lubricants and other oil products	4 053	3 347	2 991
Work clothes, work shoes, protective devices	731	553	795
Other	10 377	10 321	10 694
Total cost	**89 311**	**89 955**	**97 510**
Write-down of inventories to their net realisable value	0	0	0
Total net book value	**89 311**	**89 955**	**97 510**

The inventory was not impaired based on the inventory count in 2012 and 2011.

18. Trade Receivables

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Long-term	3 211	6 577	10 098
Short-term	1 844 048	1 873 776	1 687 393
Total	**1 847 259**	**1 880 353**	**1 697 491**

18.1. AGING OF TRADE RECEIVABLES

(CZK '000)	Category	Before due date	Past due date (days) 1 - 30	31 – 90	91- 180	181 -365	365 and more	Total past due date	Total
31 Dec 2012	Gross	1 705 170	36 757	28 568	20 593	16 152	148 380	250 450	1 955 620
	Allowances	0	-426	-5 166	-6 096	-4 118	-92 555	-108 361	-108 361
	Net	**1 705 170**	**36 331**	**23 402**	**14 497**	**12 034**	**55 825**	**142 089**	**1 847 259**
31 Dec 2011	Gross	1 507 370	313 478	14 265	8 672	5 090	87 977	429 482	1 936 852
	Allowances	0	-1 060	-9 846	-5 903	-3 552	-36 138	-56 499	-56 499
	Net	**1 507 370**	**312 418**	**4 419**	**2 769**	**1 538**	**51 839**	**372 983**	**1 880 353**
1 Jan 2011	Gross	1 518 580	46 797	34 956	4 750	19 076	147 442	253 021	1 771 601
	Allowances	0	-446	-1 797	-710	-4 180	-66 977	-74 110	-74 110
	Net	**1 518 580**	**46 351**	**33 159**	**4 040**	**14 896**	**80 465**	**178 911**	**1 697 491**

19. Other Financial Assets

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Other non-current financial assets	10 972	19 025	18 401
Other current financial assets	96 105	121 126	164 781
Total	**107 077**	**140 151**	**183 182**

Other financial assets predominantly include the loan provided to Raillex, receivables for deficits and damage, and receivables registered for recovery with the courts and financial derivatives. Allowances of CZK 6,185 thousand and CZK 24,646 thousand are recognised for receivables assigned for recovery through the courts in the years ended 31 December 2012 and 2011, respectively.

20. Other Assets

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Total non-current assets	**434**	**494**	**969**
Prepayments made	53 122	50 209	16 409
Tax receivables (except for the corporate income tax)	12 876	175 351	15 968
Prepaid expenses	17 298	70 131	57 023
Other	2 487	2 458	2 834
Total current assets	**85 783**	**298 149**	**92 234**
Total	**86 217**	**298 643**	**93 203**

21. Equity

21.1. SHARE CAPITAL

As of 31 December 2009, the share capital of the Parent Company is composed of the non-cash investment of a business part of České dráhy, a.s. as the sole shareholder and amounted to CZK 8,800,000 thousand.

On 2 June 2009, 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. As of 31 December 2012, the Company reports the share capital of CZK 8,494,000 thousand fully paid.

21.2. RESERVE AND OTHER FUNDS

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Share premium	197 658	197 658	197 657
Statutory reserve fund	61 764	61 581	61 480
Cash flow hedging reserve	-33 163	-29 759	-108 512
Foreign currency translation fund	-2 158	-23	-83
Other	55	79	64
Total	**224 156**	**229 536**	**150 606**

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

21.2.1. Cash Flow Hedging Reserve

(CZK '000)	2012	2011
Balance on the beginning of the year	-29 759	-108 512
Loss from revaluation	-9 495	-34 983
Accrued cost	0	49 947
Reclassifications to profit or loss upon settlement	5 292	77 172
Total change in the cash flow hedging reserve	**-4 203**	**92 136**
Relating income tax	799	-13 383
Balance on the year-end	**-33 163**	**-29 759**

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

22. Loans and Borrowings

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Short-term bank loans	20 000	40 279	25 497
Payables from finance leases	756 610	579 884	532 272
Overdraft accounts	859 579	349 709	1 412 257
Other received short-term loans and borrowings	9 599	74	799 948
Total short-term	**1 645 788**	**969 946**	**2 769 974**
Issued bonds	2 486 483	1 980 109	0
Other – received loans and borrowings – long-term	57 616	6 991	7 494
Payables from finance leases	2 204 974	2 365 950	2 899 241
Total long-term	**4 749 073**	**4 353 050**	**2 906 735**
Total	**6 394 861**	**5 322 996**	**5 676 709**

Portions of long-term loans and borrowings that are repayable in a period shorter than one year from the consolidated financial statements date are recognised as short-term loans and borrowings.

The Parent Company or subsidiaries breached no loan covenants in the reporting period.

22.1. ISSUED BONDS

On 4 May 2011, the resolution of the Czech National Bank, ref. no 2011/4833/570, File no. Sp/2011/50/572, approved the bond programme of ČD Cargo, a.s. The highest volume of outstanding bonds issued under the bond programme may amount up to CZK 6,000 million with the term of the bond programme being ten years. The above resolution of the Czech National Bank took effect on 5 May 2011.

In 2011 and 2012, the following issues of bonds were placed under the bond programme:

Administrator	Komerční banka, a.s.
Date of issue	20 June 2011
Total nominal value	CZK 1,000,000,000
Interest rate	Fixed interest income
Interest rate (1-3 year); coupon	3.183 % p.a.
Interest rate (4-5 year); coupon	5 % p.a.
Issue rate	98.025%
Payment of interest income	Annually retrospectively
Date of the interest payment	20 June each year
Date of the final maturity	20 June 2016
Date of the final maturity (use of the put option)	20 June 2014

Administrator	Československá obchodní banka, a.s.
Date of issue	22 Dec2011
Total nominal value	CZK 500,000,000
Nominal value of the bond	CZK 1
Interest rate	variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all other periods	1.64 % p.a.
Margin	1.30 % p.a.
Issue rate	97.464%
Payment of interest income	on six months basis, retrospectively
Date of the interest payment	22 June and 22 December each year
Date of the final maturity	22 Dec 2015

Administrator	Raiffeisenbank, a.s.
Date of issue	21 Dec 2011
Total nominal value	CZK 500,000,000
Interest rate; coupon	Fixed interest income, 3.8 % p.a.
Issue rate	99.941%
Payment of interest income	annually retrospectively
Date of the interest payment	21 Dec each year
Date of the final maturity	21 Dec 2016

Manager	Československá obchodní banka, a.s.
Date of issue	12 January 2012
Total nominal value	CZK 200,000,000
Nominal value of the bond	CZK 1
Interest rate	Variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all the following periods	1.64 % p.a.
Mark-up	1.30 % p.a.
Issue rate	97.506%
Payment of interest income	Bi-annually retrospectively
Date of the interest payment	22 June and 22 Dec each year
Date of final maturity	22 Dec 2015

Manager	Československá obchodní banka, a.s.
Date of issue	19 January 2012
Total nominal value	CZK 300,000,000
Nominal value of the bond	CZK 1
Interest rate	Variable interest income
Reference rate	6M PRIBOR
6M PRIBOR (first yield period); coupon	1.45 % p.a.
Hedged value for all the following periods	1.64 % p.a.
Mark-up	1.30 % p.a.
Issue rate	97.518%
Payment of interest income	Bi-annually retrospectively
Date of the interest payment	22 June and 22 Dec each year
Date of final maturity	22 Dec 2015
Den konečné splatnosti	22.12.2015

22.2. FINANCE LEASE PAYABLES

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

(CZK '000)	Minimum lease payments			Present value of minimum lease payments		
	31. 12. 2012	31. 12. 2011	1. 1. 2011	31. 12. 2012	31. 12. 2011	1. 1. 2011
Less than 1 year	879 815	710 066	682 715	756 611	579 885	532 272
From 1 to 5 years	1 658 070	1 846 284	2 179 105	1 359 356	1 559 775	1 817 621
5 years and more	918 159	875 844	1 200 751	845 617	806 174	1 081 620
Total	**3 456 044**	**3 432 194**	**4 062 571**	**2 961 584**	**2 945 834**	**3 431 513**
Less future finance expenses	-494 460	-486 360	-631 058			
Present value of minimum lease payments	**2 961 584**	**2 945 834**	**3 431 513**	**2 961 584**	**2 945 834**	**3 431 513**
In the statement of financial position as:						
short-term loans				756 610	579 884	532 272
long-term loans				2 204 974	2 365 950	2 899 241
Total				**2 961 584**	**2 945 834**	**3 431 513**

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

23. Provisions

(CZK '000)	Balance on 1 Jan 2011	Charge	Use	Balance on 31 Dec 2011	Charge	Use	Balance on 31 Dec 2012
Provision for legal disputes	7 198	18 065	8 370	16 893	52 732	16 252	53 373
Provision for outstanding vacation days	28 000	26 570	28 000	26 570	28 370	26 636	28 304
Provision for business risks	95 432	14 034	0	109 466	55 513	56 217	108 762
Provision for employee bonuses	240 000	150 000	0	390 000	149 988	0	539 988
Provision for restructuring	0	110 365	0	110 365	535 000	110 365	535 000
Provision for the fee for the use of trademark	0	95 000	0	95 000	0	95 000	0
Other provisions*	19 165	23 997	19 165	23 997	56 792	25 157	55 632
Total provisions	**389 795**	**438 031**	**55 535**	**772 291**	**878 395**	**329 627**	**1 321 059**
long-term	65 011			65 298			70 070
short-term	324 784			706 993			1 250 989

** Other provisions include provisions for complaints, returns of empty wagons, damages and other provisions.*

After having considered all existing legal analyses and results of negotiations in existing legal disputes and having assessed all potential risks, current developments in legal disputes and in accordance with the inherent level of prudence, management of the Parent Company has decided to increase the amount of the non-tax deductible provision by CZK 149,988 thousand to the total amount of CZK 539,988 thousand to cover potential expenses relating to potential risks for business transactions.

As of 31 December 2012, management of the Parent Company has decided to make organisational changes pursuant to the prepared restructuring plan, the main features of which were communicated within the Parent Company. The future cash outflows associated with the restructuring were estimated at CZK 535,000 thousand in the plan. The restructuring involves the inspection of the rolling stock and the scrapping of redundant wagons and traction vehicles as disclosed in Point 14.

The provision for employee benefits includes the claim of employees for a financial contribution for life jubilees, financial contribution upon retirement and payment of treatment costs including the salary refund in wellness stays. The amount of the provision in the Group was calculated at CZK 108,762 thousand using an actuarial model. For details on this model, refer to Point 4.6.

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24. Trade Payables

Year (CZK '000)	Category	Before due date	Past due date (days) 1 - 30	31 – 90	91- 180	181 -365	365 and more	Total past due date	Total
31 Dec 2012	Short-term	2 390 535	36 933	3 220	512	7 546	74	48 285	**2 438 820**
31 Dec 2011	Short-term	2 101 318	35 755	4 539	535	180	76	41 085	**2 142 403**
1 Jan 2011	Short-term	2 740 503	26 306	7 555	145	811	13	34 830	**2 775 333**

Supplier invoices typically mature in 90 days.

25. Other Financial Liabilities

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Hedging derivatives	71 145	31 748	0
Other long-term liabilities	171 869	447 992	936 485
Total long-term	**243 014**	**479 740**	**936 485**
Hedging derivatives	28 954	6 209	147 345
Other short-term liabilities	479 801	747 046	64 151
Total short-term	**508 755**	**753 255**	**211 496**
Total	**751 769**	**1 232 995**	**1 147 981**

"Other" primarily includes a liability arising from supplier loans divided into a short-term and long-term portion.

26. Other Liabilities

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Total long-term	**375 591**	**381 498**	**83 333**
Received prepayments	40 287	59 554	78 737
Payables to employees	379 664	383 805	441 116
Social security and health insurance payables	119 101	119 979	125 954
Other	140 026	185 599	468 598
Total short-term	**679 078**	**748 937**	**1 114 405**
Total	**1 054 669**	**1 130 435**	**1 197 738**

The line item 'Long-term liabilities' primarily includes deferred leaseback gains. The line item 'Other' predominantly includes payables arising from VAT and deferred leaseback gains.

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

27. Related Party Transactions

27.1. INCOME GENERATED WITH RELATED PARTIES

2012 (CZK '000)	Sale of tangible FA	Sale of inventory	Sale of services	Other income	Financial income	Total
ČD – Telematika, a.s.	0	0	175	0	0	175
Výzkumný Ústav Železniční, a. s.	0	0	4 725	0	0	4 725
DPOV, a.s.	0	1563	17 256	379	0	19 198
ČD, a.s.	0	1491	23 987	4 914	0	30 392
Total	**0**	**3 054**	**46 143**	**5 293**	**0**	**54 490**

2011 (CZK '000)	Sale of tangible FA	Sale of inventory	Sale of services	Other income	Financial income	Total
ČD – Telematika, a.s.	0	0	112	0	0	112
Výzkumný Ústav Železniční, a. s.	0	0	4 200	0	0	4 200
DPOV, a.s.	0	1 672	22 405	287	0	24 364
ČD, a.s.	87	2 461	25 630	2 728	0	30 906
Total	**87**	**4 133**	**52 347**	**3 015**	**0**	**59 582**

27.2. PURCHASE FROM RELATED PARTIES

2012 (CZK '000)	Assets	Material	Services	Other expenses	Total
ČD - Telematika, a.s.	84 038	212	17 913	0	102 163
ČD - Informační Systémy, a.s.	33 722	1 761	105 274	0	140 757
Výzkumný Ústav Železniční, a.s.	210	0	30	0	240
DPOV, a.s.	212 251	72	26 830	0	239 153
ČD, a.s.	416	693 018	1 427 666	16 660	2 137 760
Smíchov Station Development, a.s.	0	0	0	0	0
Žižkov Station Development, a.s.	0	0	0	0	0
Centrum Holešovice, a.s.	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	0	0	18 614	0	18 614
ČD Travel, s.r.o.	0	0	25 343	5	25 348
JLV, a.s.	0	0	1 543	0	1 543
Masaryk Station Development, a.s.	0	0	0	0	0
Total	**330 637**	**695 063**	**1 623 213**	**16 665**	**2 665 578**

2011 (CZK '000)	Assets	Material	Services	Other expenses	Total
ČD - Telematika, a.s.	4 451	913	44 889	0	50 253
ČD - Informační Systémy, a.s.	11 708	1 260	81 513	0	94 481
Výzkumný Ústav Železniční, a.s.	645	0	3	0	648
DPOV, a.s.	162 096	709	40 271	0	203 076
ČD, a.s.	758	748 912	1 357 172	703	2 107 545
Smíchov Station Development, a.s.	0	0	0	0	0
Žižkov Station Development, a.s.	0	0	0	0	0
Centrum Holešovice, a.s.	0	0	0	0	0
Dopravní vzdělávací institut, a.s.	0	2	20 842	0	20 844
ČD Travel, s.r.o.	0	0	21 841	0	21 841
Total	**179 658**	**751 796**	**1 566 531**	**703**	**2 498 688**

27.3. PURCHASES AND SALES OF INTANGIBLE, TANGIBLE AND FIXED ASSETS AND FINANCIAL ASSETS WITH RELATED PARTIES

Sales

Between 1 January 2012 to 31 December 2012, the Parent Company recorded no sales of intangible, tangible or financial assets of related parties.

In the year ended 31 December 2011, the Parent Company sold tangible fixed assets to České dráhy, a.s. in the amount of CZK 87 thousand.

Purchases

Purchases (CZK '000)	Intangible assets	Property, plant and equipment	Intangible assets	Property, plant and equipment
	2012	**2012**	**2011**	**2011**
ČD, a.s.	406	10	0	758
ČD – Telematika, a.s.	0	84 038	5	4 446
ČD – Informační Systémy, a.s.	33 722	0	11 708	0
Výzkumný Ústav Železniční, a.s.	0	210	0	645
DPOV, a.s.	0	212 251	0	162 096
Total	**34 128**	**296 509**	**11 713**	**167 945**

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

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27.4. TRADE RECEIVABLES AND PAYABLES AT THE END OF THE REPORTING PERIOD

31 Dec 2012 (CZK '000)	Receivables	Payables
ČD, a.s.	9 175	301 204
ČD – Telematika, a.s.	91	6 375
ČD – Informační Systémy, a.s.	0	51 276
DPOV, a.s.	16 463	58 432
ČD Travel, s.r.o.	0	3 081
Výzkumný Ústav Železniční, a.s.	1 272	0
Smíchov Station Development, a.s.	0	0
Žižkov Station Development, a.s.	0	0
Centrum Holešovice, a.s.	0	0
JLV, a.s.	0	185
Masaryk Station Development, a.s.	0	0
Dopravní vzdělávací institut, a.s.	0	2 457
Total	**27 001**	**423 010**

31 Dec 2011 (CZK '000)	Receivables	Payables
ČD, a.s.	8 523	287 730
ČD – Telematika, a.s.	21	12 631
ČD - Informační Systémy, a.s.	0	47 554
DPOV, a.s.	12 039	117 104
ČD Travel, s.r.o.	0	3 504
Výzkumný Ústav Železniční, a.s.	371	0
JLV, a.s.	0	139
Dopravní vzdělávací institut, a.s.	0	2 026
Total	**20 954**	**470 688**

27.5. LOANS TO RELATED PARTIES

In the past, ČD Cargo, a.s. 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 on 31 Dec 2012

Loan (CZK '000)	Long-term part of the loan	Short-term part of the loan	Total
Total	7 452	5 209	12 661
Principal	7 200	4 800	12 000
Interest	252	409	661
Sale of the railway siding	**Long-term part of the loan**	**Short-term part of the loan**	**Total**
Total	3 211	3 366	6 577
Principal	3 095	3 095	6 190
Interest	116	271	387

■ Balance on 31 Dec 2011

Loan (CZK '000)	Long-term part of the loan	Short-term part of the loan	Total
Total	12 661	5 081	17 742
Principal	12 000	4 587	16 587
Interest	661	494	1 155
Sale of the railway siding	**Long-term part of the loan**	**Short-term part of the loan**	**Total**
Total	6 578	3 521	10 099
Principal	6 191	3 096	9 287
Interest	387	425	812

27.6. BONUSES TO KEY MANAGEMENT MEMBERS

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

(CZK '000)	2012	2011
Short-term employee benefits	26 694	22 159
Total	**26 694**	**22 159**

Members of the statutory and supervisory bodies of the Parent Company were not provided with discounted fares. Management of individual entities of the ČD Cargo Group have the possibility to use in-kind remuneration in the form of the use of Group cars for private purposes.

27.7. RELATIONSHIPS 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 2011 and 2012.

The income of the Group predominantly includes compensation for increased costs incurred as a result of traffic closures. The income for the year ended 31 December 2012 is disclosed in Point 6.

The Parent Company is conducting a legal dispute with Správa železniční dopravní cesty, s.o. regarding the price of the purchased traction electricity during the 2009 reporting period. This dispute was not finalised as of the 2012 financial statements date.

In addition, the Parent Company is conducting a legal dispute with Správa železniční dopravní cesty, s.o. on the method of settlement arising from the damages due to traffic closures of SŽDC, s.o. This dispute was not finalised as of the 2012 financial statements date.

Expenses and income resulting from the transactions conducted with SŽDC for the years ended 31 December 2012 and 2011 were as follows:

2012 (CZK '000)	Expenses	Income
Operation of the railway route	53 765	0
Use of the railway route and allocated route capacity – freight transportation	2 219 052	0
Use of traction electricity	156	0
Other	44 158	60 435
Total	**2 317 131**	**60 435**
2011 (CZK '000)	**Expenses**	**Income**
Operation of the railway route	55 006	0
Use of the railway route and allocated route capacity – freight transportation	2 342 395	0
Use of traction electricity	0	0
Other	36 826	36 255
Total	**2 434 227**	**36 255**

Given the above activities, the Company records receivables from and payables to SŽDC:

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Receivables	29 363	5 092	4 945
Payables	439 769	505 445	545 263
Prepayments made	12 626	9 745	0
Estimated payables	14 785	10 778	6 715
Estimated receivables	3 274	3 455	2 000

27.8. TRANSACTIONS WITH THE ČEZ GROUP

The costs incurred in relation to the ČEZ Group in the years ended 31 December 2011 and 2012 primarily include the payments for electricity and amounted to CZK 47,227 thousand and CZK 47,413 thousand as of 31 December 2011 and 2012, respectively.

The income generated by the Parent Company primarily includes the sales of freight transportation. The income generated from transactions with the ČEZ Group amounted to CZK 1,738,205 thousand and CZK 1,334,811 thousand as of 31 December 2011 and 2012, respectively.

Given the above activities, the Parent Company records the following receivables from and payables to the ČEZ Group:

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Receivables	193 595	260 549	167 361
Payables	1 208	6 489	1 464
Estimated payables	2 081	61	0

28. Cash and Cash Equivalents

For cash flow statement purposes, cash and cash equivalents include cash on hand, cash at bank and investments in the money market instruments after reflecting negative balances on overdraft accounts. Cash and cash equivalents at the end of the reporting period reported in the cash flows statement can be reconciled to the relevant items in the statement of financial position as follows:

(CZK '000)	31 Dec 2012	31 Dec 2011	1 Jan 2011
Cash on hand and cash in transit	2 043	2 315	2 637
Cash at bank	236 993	163 237	263 569
Total	**239 036**	**165 552**	**266 206**

29. Contracts for Operating Leases

29.1. THE GROUP AS A LESSEE

Assets under operating leases which are reported off balance sheet as of 31 December 2012 amount to CZK 36,854 thousand. Assets include a number of individually immaterial contracts for the lease of office equipment, vehicles and non-residential premises. Payments recognised in expenses in the years ended 31 December 2012 and 2011 amounted to CZK 9,521 thousand and CZK 10,838 thousand, respectively.

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

29.2. THE GROUP AS A LESSOR

Operating leases applies to the lease of traction vehicles, wagons and cisterns owned by the Group with various lease periods.

Income from operating leases of movable assets in 2012 amounts to CZK 514,173 thousand (2011: CZK 551,204 thousand).

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

30. Contractual Obligations Relating to Expenses

As of the balance sheet date, the Company concluded contracts for the purchase of fixed assets in the amount of CZK 2,411,118 thousand, of which CZK 1,233,877 thousand relates to supplies agreed for 2013 and CZK 11,040 thousand relates to supplies agreed for the following years. The remaining amount of CZK 1,166,201 thousand was paid as of 31 December 2012. A significant part of the obligations relating to expenses (CZK 1,067,041 thousand) include investments in railway vehicles.

31. Contingent Liabilities and Contingent Assets

31.1. BANK GUARANTEES ISSUED

Bank guarantees as of 31 December 2012, issued by Komerční banka, a.s. from the liability limit of CZK 50 million.

- **List of active bank guarantees provided by ČD Cargo, a. s. as of 31 December 2012**

In favour of	Type of guarantee	Amount	Currency	Until	Reason for the issuance of a bank guarantee
WestInvest Waterfront Towers, s.r.o., Jankovcova 1569/2c, 170 00 Prague 7, Holešovice, Corporate ID 26178338	Lease guarantee	227,267	EUR	30 Sept 2013	Bank guarantee for the fulfilment of all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
HYPARKOS, s.r.o., Škrétova 490/12, 120 00 Prague 2, Corporate ID 27626130	Lease guarantee	16,517,056	CZK	30 June 2013	Bank guarantee in the event that ČD Cargo does not comply with the obligations stipulated by the Contract for the Lease of Buildings and Land in the Logistics Centre in Lovosice

31.2. BANK GUARANTEES RECEIVED

- **List of active bank guarantees received by ČD Cargo, a. s. as of 31 December 2012**

Bank guarantee received from	Guarantee provider	Amount	Currency	Until	Reason for the issuance of a bank guarantee
ŠKODA TRANSPORTATION, a.s., corporate ID 62623753, with its registered office at Borská 2922/32, 301 00 Plzeň	Komerční banka, a.s.	179,550,000	CZK	31 Dec 2013	Bank guarantees arising from contract for work no. ŠT/03/018/08/SML dated 11 December 2008 for the „Modernisation of locomotives from 163 series to 363 series" project.
ŠKODA TRANSPORTATION, a.s., corporate ID 62623753, with its registered office at Borská 2922/32, 301 00 Plzeň	Československá obchodní banka, a.s.	179,550,000	CZK	31 March 2013	

32. Financial Instruments

32.1. ŘÍZENÍ KAPITÁLOVÉHO RIZIKA

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

The capital structure of the Group consists of net debt (borrowings offset by cash and bank balances) and equity of the Group (comprising share capital, funds, retained earnings). The Parent Company is not subject to any externally imposed capital requirements.

32.2. SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted for each class of financial asset, financial liability and equity instrument are disclosed in Point 2.

32.3. CATEGORIES OF FINANCIAL INSTRUMENTS

Financial assets (CZK '000)	31 Dec 2012	31 Dec 2011
Cash and bank accounts	239 036	165 552
Derivative financial instruments	17 523	2 975
Loans and receivables	1 936 813	2 017 530
Total	**2 193 372**	**2 186 057**

Financial liabilities (CZK '000)	31 Dec 2012	31 Dec 2011
Derivative financial instruments	100 098	37 957
Trade payables, finance leases measured at amortised cost	9 485 350	8 660 436
Total	**9 585 448**	**8 698 393**

Income from individual categories of financial assets is as follows:

Category of financial assets (CZK '000)	2012	2011	Reported in the income statement line
Interest on cash in bank accounts	1 818	1 909	Other gains
Total	**1 818**	**1 909**	

Impairment losses on financial assets are presented in the Point 'Trade receivables' (Point 18) and 'Other financial assets' (Point 19). No impairment was noted in respect of any other class of financial assets.

32.4. FINANCIAL RISK MANAGEMENT OBJECTIVES

The Treasury function provides services to the Parent Company, monitors and manages the financial risks relating to the operations of the Parent Company. Financial risks include market risk (including currency risk, interest rate risk and commodity risk), credit risk and liquidity risk.

32.5. CURRENCY RISK MANAGEMENT

The Group undertakes transactions denominated in foreign currencies; consequently, there are exposures to exchange rate fluctuations. These transactions predominantly include income from international transportation and received loans.

The Group seeks to maintain the proportion of long-term funding in the foreign currency unhedged against the currency risk at the maximum level of 50%.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the end of the reporting period are as follows:

31 Dec 2012 (CZK '000)	EUR	USD	Other	Total
Financial assets	921 619	75	58 240	979 934
Financial liabilities	327 797	0	107 308	435 105

31 Dec 2011 (CZK '000)	EUR	USD	Other	Total
Financial assets	901 832	4	75 036	976 872
Financial liabilities	300 875	0	49 633	350 508

1 Jan 2011 (CZK '000)	EUR	USD	Other	Total
Financial assets	1 088 302	0,1	300	1 088 602
Financial liabilities	315 721	0	1 512	317 233

32.5.1. Foreign Currency Sensitivity Analysis

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

- Changes in the value of unhedged cash items denominated in foreign currencies; and
- Changes in the fair value of concluded financial derivatives.

The following table shows the impact that the strengthening of the Czech currency by one crown in respect of the relevant foreign currencies would have on the profit and other comprehensive income. A positive number indicates an increase in the profit and other comprehensive income, a negative number indicates the decrease in the profit and other comprehensive income:

(CZK '000)	2012	2011
Translation of unhedged items denominated in foreign currencies at the end of the period	0	0
Change in the fair value of derivatives at the end of the period	0	0
Total impact on the profit for the period	**0**	**0**
Change in the fair value of derivatives at the end of the period	33 024	35 717
Total impact on other comprehensive income	**33 024**	**35 717**

32.5.2. Currency Forwards

In line with its principles, the Group enters into currency forwards and options to cover the received payments denominated in foreign currencies.

The table shows outstanding foreign currency forwards and options for the sale of the foreign currency as of:

Foreign currency forwards

Sale (CZK '000)	Average foreign currency rate	Foreign currency	Nominal value	Fair value
31 Dec 2012	25.626	EUR	23 000	12 560
31 Dec 2011	25.76	EUR	36 000	-855

Foreign currency options - collar

Sale (CZK '000)	Average foreign currency rate	Foreign currency	Nominal value	Fair value
31 Dec 2012	25.17 – 26.20	EUR	12 000	3 123

The Group concluded no outstanding foreign currency forwards and options for the purchase of foreign currency in the years ended 31 December 2011 and 2012.

32.6. INTEREST RATE RISK MANAGEMENT

The Group is exposed to the risk of interest rate changes because it borrows funds at both fixed and floating interest rates. The Group manages the interest rate risk by maintaining an appropriate mix between fixed and floating rate financing.

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

32.6.1. Interest Rate Sensitivity Analysis

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

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

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

(CZK '000)	2012	2011
Interest from loans and lease with variable rate for the period	2 669	2 641
Change in the present value of long-term provisions at the end of the period	8 075	8 531
Change in the fair value of derivatives at the end of the period	67 982	66 471
Total impact on the profit for the period	**78 726**	**77 643**
Change in the fair value of derivatives at the end of the period	39 598	53 340
Total impact on other comprehensive income	**39 598**	**53 340**

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32.6.2. Interest Rate Swaps

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

The following table details the terms of interest rate swap contracts outstanding at the end of the reporting period.

IRS

31 Dec 2012	Average contracted fixed interest rate	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	3.265%	677 979	-14 595
1 to 5 years	3.265%	1 432 545	-34 665
5 years and more	3.265%	477 901	-8 055
Total			**-57 315**

31 Dec 2011	Average contracted fixed interest rate	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	3.265%	773 172	-4 436
1 to 5 years	3.265%	477 515	-25 109
5 years and more	3.265%	128 070	-6 339
Total			**-35 884**

Hedging of the Bonds Rate

31 Dec 2012	Average contracted fixed interest rate	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	2.94%	1 000 000	-10 387
1 to 5 years	2.94%	1 000 000	-21 024
5 years and more			0
Total			**-31 411**

31 Dec 2011	Average contracted fixed interest rate	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand
Less than 1 year	2.94%	500 000	-919
1 to 5 years	2.94%	500 000	-301
5 years and more			0
Total			**-1 220**

32.6.3. Interest Rate Options

In 2011, the Group concluded hedging of interest rates in respect of three lease transactions with floating interest rates. The hedging took the form of a collar, in three individual tranches. The hedging will be effective from 2013 to 2019. These are trading derivatives.

	Hedged range	Principal in CZK thousand	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2012	Fair value of assets (liabilities) in CZK thousand at 31 Dec 2011
Less than 1 year	1.13% - 3.13%	762 150	-3 971	0
1 to 5 years	1.13% - 3.13%	686 457	-6 282	733
5 years and more	1.13% - 3.13%	331 369	31	2 242
Total			**-10 222**	**2 975**

The Group will settle the difference between the fixed and variable interest rate on a net basis. Exchanges of payments under interest rate swaps and payments of the interest on loans are concurrent and the amount accumulated in equity is reclassified to the profit or loss in the period in which variable interest rates from the loan impact the profit or loss.

32.7. COMMODITY RISK MANAGEMENT

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

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

32.7.1. Analysis of Sensitivity to Changes in Commodity Prices

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

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

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

(CZK '000)	2012
Costs of oil consumption for the period	574 238
Change in the fair value of derivatives at the end of the period	0
Total impact on the profit for the period	**0**
Change in the fair value of derivatives at the end of the period	12 158
Total impact on other comprehensive income	**12 158**

Figures for 2011 are not provided as the price of oil was not hedged as of 31 December 2011.

32.7.2. Commodity Derivatives
The Parent Company used a commodity swap to hedge the price of oil.

The table shows outstanding commodity contracts for the purchase of oil as of 31 December 2012:

Purchase of oil	Hedged average price (USD/mt)	Volume of contracts (mt)	Fair value (CZK thousand)
31 Dec 2012	17 348.62	6 900	691

32.8. CREDIT RISK MANAGEMENT
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group seeks to trade only with creditworthy counterparties whom the Group reviews on an ongoing basis using publicly available information. The maximum net unhedged exposure to one counterparty in common business activities outside the Group is determined at CZK 50 million. The Group's exposure and credit ratings of its counterparties are continuously monitored.

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

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

32.9. LIQUIDITY RISK MANAGEMENT
The liquidity risk in the Group is managed in respect of the permanent provision of sufficient volume of available funds necessary for the settlement of financial liabilities.

On a daily basis, the Group assesses the available funds and cash flows and liquidity development. Pursuant to these assessments, the Group decides on an optimal use of operating financial sources, consisting primarily of overdraft loans. In order to strengthen its financial stability, the Group increases long-term financial sources on a continuous basis. In order to further increase the cash flow stability, the Group used a lease-back for ten modernised 363.5 series traction vehicles in 2012. The Group issued bonds in the aggregate volume of CZK 2.5 billion and has a bill of exchange programme available in the aggregate amount of CZK 1.5 billion which, however, was not used during 2012.

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

31 Dec 2012 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 129 352	1 317 261	500 960	234 959	8 055	3 190 587
Finance lease liabilities	89 351	157 492	632 969	1 658 070	918 159	3 456 041
Variable interest rate instruments	861 089	23 297	94 829	2 173 066	0	3 152 281
Fixed interest rate instruments	15	30	19 730	608 421	26 618	654 814
Total	**2 079 807**	**1 498 080**	**1 248 488**	**4 674 516**	**952 832**	**10 453 723**

31 Dec 2011 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 051 501	1 295 098	549 133	476 979	2 762	3 375 473
Finance lease liabilities	63 393	113 830	531 403	1 844 968	875 844	3 429 438
Variable interest rate instruments	350 064	709	21 416	540 670	0	912 859
Fixed interest rate instruments	0	0	62 728	1 727 762	0	1 790 490
Total	**1 464 958**	**1 409 637**	**1 164 680**	**4 590 379**	**878 606**	**9 508 260**

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

31 Dec 2012 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 933 183	227 487	18 519	3 211	0	2 182 400
Fixed interest rate instruments	0	0	0	10 772	200	10 972
Total	**1 933 183**	**227 487**	**18 519**	**13 983**	**200**	**2 193 372**

31. 12. 2011 (CZK '000)	Less than 1 month	1 - 3 months	3 months to 1 year	1 year – 5 years	5 years and more	Total
Non-interest bearing	1 460 282	690 294	9 879	7 310	2 242	2 170 007
Fixed interest rate instruments	0	0	0	16 050		16 050
Total	**1 460 282**	**690 294**	**9 879**	**23 360**	**2 242**	**2 186 057**

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

32.9.2. Financing Facilities
The Group uses the following financing facilities:

(CZK '000)	31 Dec 2012	31 Dec 2011
Overdraft loan facilities:		
amount of the loan facility at	1 800 000	1 800 000
balance on	940 494	1 450 291
Bill of exchange programme		
amount of the programme at	1 500 000	1 500 000

32.10. STRATEGY FOR THE GROUP'S FUNDING IN SUBSEQUENT

32.10.1. Lease-Back
In 2012, the Parent Company used the first tranche of the leaseback of modernised traction vehicles of the 363.5 series. For 2013, the Parent Company is planning to use the leaseback for financing the modernisation of other 20 modernised locomotives of the 163 series to the 363.5 series at the acquisition cost of CZK 1,197 million.

32.10.2. Operating Bank Loans
In funding its operating needs, the Group uses overdraft and revolving loans advanced by five banks in the maximum amount of CZK 1.83 billion. The increase in competition among the banks allowed the Group 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.

32.10.3. Bill of Exchange Programme
The Group has the possibility to use the approved bill of exchange programme if needed. This programme is currently not used.

32.10.4. Bonds
With a view to securing the mid-term and long-term sources of funding to increase the stability of the Parent 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, three issues were gradually placed up with the total nominal value of CZK 2 billion. In 2012, another two issues of bonds in the aggregate nominal value of CZK 500 million were placed. This form of funding reduces the risk of a lack of liquidity arising from the option to apply termination periods on bank loans.

32.10.5. 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 Group has the objective to arrange for leases to become an achievable form of long-term funding in 2013.

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

Based on the planned funding structure, the Group 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).

32.11. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

All financial instruments measured at fair value recognised by the Group as of 31 December 2012, 31 December 2012 and 31 December 2010 are included in Level 3. Financial assets available for sale include equity investments, the fair value of which cannot be reliably determined and hence are measured at cost.

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Reconciliation of Level 3 fair value measurements of financial assets and liabilities

(CZK '000)	Available-for-sale financial assets - derivatives
Balance on 31 December 2010	**-147 345**
Total gains or losses	35 190
in profit or loss	18 471
in other comprehensive income	16 719
Sale/settlement	77 172
Balance on 31 December 2011	**-34 983**
Total gains or losses	-52 884
in profit or loss	-43 389
in other comprehensive income	-9 495
Sale/settlement	5 291
Balance on 31 December 2012	**-82 576**

32.11.4. Deriváty - Ostatní úplný výsledek

(CZK '000)	31 Dec 2012	31 Dec 2011
Total other comprehensive income	-4 204	92 136
Settlement	5 291	77 172
Cost deferral	0	49 947
Change in the fair value	-9 495	35 190
Ineffective part of derivatives	0	-70 173
commodities	0	17 396
currency derivatives	0	-87 569

33. Post Balance Sheet Events

On 7 March 2013, management of the Parent Company approved the sale of 86 traction vehicles to the subsidiary Koleje Czeskie Sp. Z. o.o. The selling price of CZK 718,560 thousand was determined on the basis of expert appraisal no. 1409-7/2013 dated 13 February 2013 which was prepared by a court-appointed expert specialised in economics and mechanical engineering.

On 21 March 2013, the Board of Directors of ČD Cargo, a.s. approved the intention to sell its 100% equity investment in ČD Generalvertretung Wien GmbH to ČD Generalvetretung GmbHand and its 100% equity investment in Generálne zastúpenie ČD Cargo, s.r.o. to Koleje Czeskie Sp. z o.o. As of the consolidated financial statements approval date, the prices of transferring the equity investments referred to above have not yet been established, these will be determined based on expert appraisals. The transactions are anticipated to be completed by 30 June 2013.

34. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 4 April 2013.

17 Significant subsequent events

On 7 March 2013, management of the Parent Company approved the sale of 86 traction vehicles to the subsidiary Koleje Czeskie Sp. Z. o.o. The selling price of CZK 718,560 thousand was determined on the basis of expert appraisal no. 1409-7/2013 dated 13 February 2013 which was prepared by a court-appointed expert specialised in economics and mechanical engineering.

18
Report on Relations Between Related Parties

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 513/1991 Coll., as amended.

The Board of Directors of ČD Cargo, a.s. prepared this report for the reporting period from 1 January 2012 to 31 December 2012 in compliance with Section 66a) (9) of Act 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: Prague 7, Holešovice, Jankovcova 1569/2c, 170 00
Corporate ID: 281 96 678
Recorded at the Commercial Court in Prague, Section B, File 12844

Gustav Slamečka – Chairman of the Board of Directors – until 8 October 2012
Petr Žaluda – Chairman of the Board of Directors – since 9 October 2012
Jiří Špička – Member of the Board of Directors – until 5 September 2012
Jan Vlasák – Member of the Board of Directors – until 24 April 2012
Sonny Sonnberger – Member of the Board of Directors – until 24 April 2012
Roman Vallovič – Member of the Board of Directors – from 24 April 2012 to 2 October 2012
Petr May – Member of the Board of Directors – since 25 September 2012
Vlastimil Chobot– Member of the Board of Directors – since 9 October 2012
(hereinafter the "Controlled Entity")

2) Controlling Entity:

Entity: České dráhy, a.s.,
Having its registered office in: Prague 1, Nábřeží L. Svobody 1222, 110 15
Corporate ID: 709 94 226
Recorded at the Commercial Court held at the Municipal Court in Prague, Section B, File 8039

Petr Žaluda – Chairman of the Board of Directors
Jiří Kolář – Member of the Board of Directors – until 26 April 2012
Michal Nebeský – Member of the Board of Directors – until 31 October 2012
Vladimír Bail – First Vice-chairman of the Board of Directors – until 16 August 2012
Ctirad Nečas – Member of the Board of Directors
Miroslav Šebeňa – Member of the Board of Directors – since 21 September 2012
Roman Boček– Member of the Board of Directors – since 1 October 2012
(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, File B, Insert 12844
- ČD – Telematika a.s., with its registered office at Pernerova 2819/2a, Prague 3, 130 00, Corporate ID-61459445, recorded at the Municipal Court in Prague, File B, Insert 8938
- ČDT-Informační Systémy, a.s., with its registered office in Prague 3, Žižkov, Pernerova 2819/2a, 130 00, Corporate ID-24829871, recorded at the Municipal Court in Prague, File B, Insert 17064
- 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, File B, Insert 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, File C, Insert 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, File B, Insert 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, File B, Insert 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, File B, Insert 6888
- RAILREKLAM, spol. s r.o., with its registered office in Prague 4 – Nusle, Štětkova 1638/18, 140 00, Corporate ID: 17047234, recorded at the Municipal Court in Prague, File C, Insert 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, File B, Insert 9949
- 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, File B, Insert 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, File B, Insert 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, File B, Insert 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 2012 to 31 December 2012.

ARTICLE IV.

Contracts and Agreements Concluded 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:

Name of the partner entity	Number of contracts concluded during the reporting period				
	Contract for work	Purchase contract	Lease	Other	Total
Centrum Holešovice, a.s.	0	0	0	0	0
ČD-Informační Systémy, a.s.	3	0	0	1	4
České dráhy a.s.	2	0	3	19	24
ČD – Telematika, a.s.	0	0	0	0	0
ČD Reality, a.s.	0	0	0	0	0
ČD travel, s.r.o.	0	0	0	2	2
Dopravní vzdělávací institut, a.s.	0	0	0	1	1
DPOV, a.s.	9	0	0	4	13
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
Výzkumný Ústav Železniční, a.s.	1	0	0	0	1
Žižkov Station Development, a.s.	0	0	0	0	0
Total	**15**	**0**	**3**	**27**	**45**

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

Name of the partner entity	Sales of ČD Cargo, a.s. in CZK thousand	Purchases of ČD Cargo, a.s. in CZK thousand
Centrum Holešovice, a.s.	0	0
ČD-Informační Systémy, a.s.	0	140 423
České dráhy a.s.	29 271	2 130 635
ČD – Telematika, a.s.	175	101 733
ČD Reality, a.s.	0	0
ČD travel, s.r.o.	0	25 348
Dopravní vzdělávací institut, a.s.	0	18 614
DPOV, a.s.	17 077	121 711
RailReal a.s.	0	0
RAILREKLAM, spol. s r.o.	0	516
Smíchov Station Development, a.s.	0	0
Výzkumný Ústav Železniční, a.s.	4 725	240
Žižkov Station Development, a.s.	0	0
Total	**51 248**	**2 539 220**

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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 2012 to 31 December 2012:

- 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 2012;
- In the reporting period from 1 January 2012 to 31 December 2012, 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 2012 to 31 December 2012, 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 2012 to 31 December 2012, 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 in the group 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, by 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.

In Prague on 14 February 2013

Signature of the Chairman of the Board of Directors
of the Controlled Entity ČD Cargo, a.s.:

Petr Žaluda
Chairman of the Board of Directors

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List of Abbreviations

AEO	Authorised Economic Operator
BOZP	Health and Safety Protection at Work
CEVIS	Central Vehicle Information System
CNP	Central Freight Payment Point
CVA	Central Sidings Administration
ČD	České dráhy, a.s.
ČDC	ČD Cargo, a.s.
ČIŽP	Czech Environmental Inspection
ČOV	Waste Water Treatment Plant
Eas, Zaes,	Business Series of Freight Wagons
EMAN	Editing, Modelling and Analysis of the Freight Transportation Plan
EMS	Environmental Management System
GŘ	General Directorate
HV	Traction Vehicles
HZS	Fire Brigade
IFRS	International Financial Reporting Standards
ISOŘ	Operational Management Information System
ISR	European Central System for the Monitoring of Movements of Freight Wagons and Consignments
JOS	Organisational Structure Unit
KNV	Wagon Central File
MU	Extraordinary Events
OKV	Rail Vehicle Repair Plant
OSŽ	Railway Workers Union
PJ	Operating Unit
PPS	Border Crossing
PRIS	Operational Information System
PROBIS	Operational and Business Information System
QMS	Quality Management System
SOKV	Rail Vehicle Repair Service Centres
SŽDC	Správa železniční dopravní cesty, státní organizace
TSV	Technical Vehicle Service
UIC	International Union of Railways
ÚDIV	Central Forming of Trains
ŽDP	Railway Transportation Plant
ŽKV	Railway Vehicles
ŽP	Environment

20 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

Cargo

Member of the ČD Group