

# Annual Report 2011



**Cargo**

Member of the ČD Group



# Anything Anywhere

ČD Cargo, 24 hours a day, 7 days a week, 365 days a year...



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.

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## 01 Mission, vision and goals

The ČD Cargo, a.s. joint stock company (hereafter also simply referred to as the "Company") is the largest Czech railway freight transport operator. The Company provides the 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 investments in the development of infrastructure to support the connection of industrial areas with rail 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 regard to reducing the impact of transport in the interests of securing sustainable development. The unified internal EU market and the opening up of the international railway transport market have become an incentive for ČD Cargo, a.s. to look for 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 in the freight transport market in the Czech Republic and the Central European region.

## 02 Company profile

ČD Cargo, a.s. was established on 1<sup>st</sup> December 2007 after an investment made by part of the České dráhy company. The sole founder and owner is the České dráhy joint stock company. ČD Cargo, a.s. is a subsidiary of České dráhy, a.s. which specialises in freight transport.

### COMPANY'S NAME, ADDRESS AND REGISTRATION NUMBER

Trading name: ČD Cargo, a.s.

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

Company Registration Number: 28196678

Entered in Section B, Insert 12844 of the Commercial Register held at the Municipal Court in Prague.

### 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 become the driving force in the freight transport market in the Czech Republic and the Central European region.

The principal commercial activity, the rail transportation of goods, is structured according to the nature of the flow of goods as follows

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

With regard to the abovementioned structure, it is appropriate to configure the principal activities by commodity, i.e. according to the nature of the transported goods with respect to the capacity requirements, the vehicle requirements, the required operating technologies or the special care of shipments

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

## 03 Basic economic indicators

INDICATOR	2011	2010	2009	2008 **)	2007 *)	INDEX 11/010
<b>Asset and liability structure (CZK million)</b>						
Total assets	15 664	15 652	15 672	15 987	14 142	1,00
Fixed assets	12 957	13 045	12 424	12 282	10 392	0,99
Equity	8 009	7 967	8 230	8 282	8 999	1,01
<b>Profit/loss structure (CZK million)</b>						
Operating profit or loss	314	-125	8	593	1 925	-2,52
Profit or loss before tax	11	-418	-378	474	1 394	-0,03
<b>Revenue structure (CZK million)</b>						
Total revenues	15 042	14 984	15 003	17 800	17 772	1,00
Sales of own products and services	14 404	14 121	13 272	17 109	17 661	1,02
<b>Financial indicators</b>						
Turnover of assets (total revenues/total assets)	0,96	0,96	0,96	1,11	1,26	1,00
Indebtedness (liabilities/total assets)	0,49	0,49	0,47	0,48	0,36	1,00
Liquidity (current financial assets/current liabilities)	0,03	0,07	0,05	0,05	0,05	0,41
<b>Employees</b>						
Average headcount recalculated to FTE (number of employees)	9 207	9 573	10 378	11 394	11 807	0,96
Total revenue per employee (CZK/employee)	1 633 736	1 565 198	1 445 675	1 562 209	1 505 224	1,04
Added value per employee (CZK/employee)	678 452	598 224	542 148	561 505	625 180	1,13

\*) The ČD, a.s. figures – area of activities: freight transport (Jan-Nov/2007) and for ČD Cargo, a.s., (Dec/2007). The statement of the basic economic indicators includes a short-term bank loan (overdraft) for Dec/2007 on the liabilities side; this short-term loan is presented with a negative value on the assets side in the statements prepared by ČD Cargo, a.s.. This presentation method was adopted by the Company due to the fact that no year-end financial statements were prepared for December 2007. The relevant period is part of the reporting period from 1<sup>st</sup> December 2007 to 31<sup>st</sup> December 2008.

\*\*) The figures relate to the 2008 calendar year, they do not correspond to the accounting values reported for the reporting period ending 31<sup>st</sup> December 2008.

## 04 Major Events in 2011

### 01 / 2011

The start of transportation using road semi-trailers from Lovosice to Vratislavice and back (individual vehicle shipments).

### 02 / 2011

A railway siding at the Lagermax storage area in Prague - Ruzyně was brought into operation and the regular transportation of goods was initiated between Prague - Ruzyně and the Ostrava Main Station.

### 02 / 03 / 2011

The organisation of the transportation of prefabricated prison cells to Switzerland in cooperation with ČD Logistics, a.s.

### 03 / 2011

The 75<sup>th</sup> anniversary of operations at the Praha-Žižkov Freight Railway Station.

The participation of ČD Cargo, a.s. at the IRFC (International Rail Freight Conference) in Prague – the conference focused on the provision of transportation services with higher added value, including new types of logistics services, increasing the capacity use rate of railway transportation in the Czech Republic and the territorial development of ČD Cargo, a.s.

### 04 / 2011

The participation of ČD Cargo, a.s. at the TransRussia Trade Fair in Moscow.

### 05 / 2011

The participation of ČD Cargo, a.s. at the Transport Logistics Trade Fair in Munich.

The start of the IFC (International Freight Contract) project in cooperation with DB Schenker Rail Deutschland with the objective of simplifying the pricing of international transportation with lower volumes.

An external quality and environment audit – the ISO 9001 and ISO 14001 certificates – the recommendation to extend both certificates.

### 06 / 2011

The start of the operation of container trains from Praha-Uhřetěves to Havířov and back (Metrans).

The participation of ČD Cargo, a.s. at the Czech Railways Trade Fair in Ostrava. In the first half of 2011, ČD Cargo, a.s. sold the first issue of bonds and consequently initiated its bond programme which was approved by the Czech National Bank at the beginning of May 2011. The manager of the first issue of bonds is the Komerční banka.

### 07 / 2011

ČD Cargo, a.s. received its first 742 series locomotive after an overhaul which included the lowering of the compartment.

### 08 / 2011

The start of the first transportation under the ČD Cargo Plus (Olomouc – Středokluky) brand.

The start of road semi-trailer transportation from Rostock Seehafen to Brno and back to the Brno Terminal (the recommencement of the terminal operations in March 2011).

### 09 / 2011

Start of the Innofreight transportation of sediment from the Ostrava region to the Most region, a total of 100 thousand tonnes transported.

ČD Cargo, a.s. completed a demanding railway transportation of a heavy Komatsu D155 AX 6 bulldozer from Prague to Jerevan in cooperation with Trutnov, PJ Česká Třebová logistics services.

### 10 / 2011

The 5<sup>th</sup> anniversary of the arrival of the first regular container train from Duisburg to the logistics centre in Lovosice (5<sup>th</sup> October 2011).

The completed transportation of military hardware from Kosovo to the Czech Republic in connection with the completion of the Czech military mission in Kosovo.

Intensive work was initiated on the specification and creation of the future Xrail Capacity Booking (XCB) reservation ticket tool at the Xrail project meeting in Zurich according to the resolution of the Board of Trustees.

The demanding transportation of a crane from Královopolská to Vorsino in the Kaluga region in Russia.

The Company participated in the 53<sup>rd</sup> International Engineering Trade Fair and the 6<sup>th</sup> International Transport and Logistics Trade Fair in Brno.



During the meeting of the Coordination Committee for TransSiberia Transportation, the Chairman of the Board of Directors, Gustav Slamečka, negotiated with V.I. Jakunin, the President of Russian Railways.

**10 / 11 / 2011**

The start of the transportation of sugar beet from Palhanec to Hrušovany nad Jevišovkou.

**11 / 2011**

The opening of the modernised 4<sup>th</sup> section of the Olbramovice – Votice transit railway corridor with two new double-track tunnels.

**12 / 2011**

The transportation of pipes from Turkey for the construction of the Gazelle gas pipeline was discontinued. A total of more than 2,500 vehicles loaded with over 90 thousand tonnes of pipes were transported to North Bohemian and West Bohemian stations.

A meeting of ČD Cargo, a.s. management, sales managers, operations managers, foreign representatives and marketing employees and communication with significant business partners and customers held at Špindlerův Mlýn.






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 CHAIRMAN OF THE BOARD OF DIRECTORS

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 Gustav Slamečka

## 05 Opening statement of the Chairman of the Board of Directors

Ladies and gentlemen, shareholders and colleagues,

I am pleased to have the opportunity to present ČD Cargo's annual report for the year ending 31<sup>st</sup> December 2011. The annual report is both an important document containing a detailed analysis and a comprehensive summary of the previous year, as well as a certain symbolic conclusion and assessment. There is no doubt that 2011 was a difficult year full of unexpected changes, fluctuations and turning points. However, the achieved results illustrate that we were very successful and that we performed well in these difficult times. I believe that the following years will be similar.

Many changes were made at ČD Cargo, a.s. during the year. This involved both changes in the management and changes in the relations with and approach to our customers. The objective of all these events was to strengthen the position of the Company in the market and to return it to prosperity. When we look back, we can say that these objectives have been met in full.

The fact that the Company has generated a profit, that we have financially stabilised the Company and that we have managed to initiate the necessary changes for the further development of the firm does not mean that we can afford to rest on our laurels: we still have a lot of work to do. This is not the end of our efforts. However, last year clearly indicated that the problems can be dealt with.

Our task for the following period is to avoid a similar situation in the future and to adopt pro-growth measures so that ČD Cargo, a.s. clearly shows that it is both rightfully the largest player in the Czech market and that it has the potential to become even stronger and to be an economically strong and important firm at a European level.

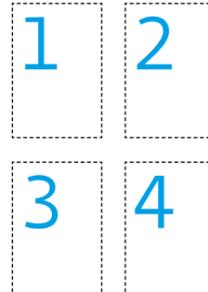
This will not be possible without the hard work of our employees and the trust of our customers. In conclusion, let me thank all of our business partners for their trust and all our employees for their work.

I believe that the Company is entering a successful period and that it will continue to be a reliable partner to all its customers who enjoy its high-quality and comprehensive services.

**Gustav Slamečka**  
Chairman of the Board of Directors



## COMPANY MANAGEMENT



(1) GUSTAV SLAMEČKA  
(2) JIŘÍ ŠPIČKA  
(3) JAN VLASÁK  
(4) SONNY SONNBERGER

## 06 Statutory bodies and the Company Management

ČD Cargo, a.s. is wholly owned by České dráhy, a.s. which performs the role of the general meeting, ie the Company's supreme body. The Company's statutory body is the Board of Directors which consists of four members; the Company's oversight body is the Supervisory Board which has six members. The Company's advisory and initiative body is the Board of Trustees which has three members who are elected by the general meeting based on nominations from the Ministry of Transport of the Czech Republic. The Company established a three-member Company obligatory body, the Audit Committee, as of 1<sup>st</sup> October 2009 in accordance with Auditors Act No. 93/2009 Coll.

### Board of Directors

#### 1. Gustav Slamečka

Chairman of the Board of Directors (a member since 8<sup>th</sup> June 2011, The Chairman since 23<sup>rd</sup> June 2011), age: 52

Gustav Slamečka graduated from the Faculty of Economics and Tourism at the Banská Bystrica University of Economics, the Czech Management Centre and the University of Pittsburgh. From 1984 to 1992, he held various managerial positions in Jednota Nitra, the Trade Institute in Nitra and the Slovak Trade Inspectorate in Nitra. Between 1992 and 1994, he was the Executive Director of Intergames, s. r.o. and Nevada s. r.o. From 1995 to 1996, he was employed as a manager in charge of the Finance Department and cooperation with the Council of Europe at the Institute of the Approximation of Law at the Ministry of Justice of the Slovak Republic. From 1996, he held various managerial positions at ABN-AMRO Bank. From May 2007 to February 2009, Gustav Slamečka was the Director of the State Transport Infrastructure Fund. In February 2009, he was appointed Deputy Minister of Transport and in May 2009 he was appointed Czech Minister of Transport. Due to this position, he resigned from his position as a member of the Company's Board of Trustees which he had held from the formation of the company. In mid-July 2010, he returned to the State Transport Infrastructure Fund where he was the CEO until his involvement with the Company.

#### 2. Jiří Špička

Member of the Board of Directors (since 8<sup>th</sup> September 2010); age: 49

Jiří Špička has worked as the Director of Operations since 9<sup>th</sup> September 2010. He graduated from Palacký University in Olomouc specialising in psychology and from the railway high school in Česká Třebová where he specialised in transportation. In 1982, he started working for České dráhy as a railway conductor and he subsequently became part of middle management in the business and

operations directorate at Česká Třebová. Between 1997 and 1999, he worked at JEVIMETAL, s.r.o. as the Sales Manager. From 1999–2003, he worked in the Data and Information Services department at České dráhy as the Head of the Finance and Trade Department. Starting on 1<sup>st</sup> June 2003, he worked in the Corporate Education Division at České dráhy as a Deputy Manager. On 1<sup>st</sup> October 2005, he began working at Dopravně vzdělávací institut (DVI, a.s.) as the Deputy CEO and the Manager of the Transportation Education Centre in Česká Třebová. Before joining ČD Cargo, a.s., he was the Finance and Technical Manager at DVI, a.s. from 1<sup>st</sup> June 2008 and a member of DVI, a.s.'s Board of Directors.

#### 3. Jan Vlasák

Member of the Board of Directors (since 21<sup>st</sup> June 2011), age: 38

Jan Vlasák graduated from the Military Academy in Vyškov. After graduation, he started working in the internal administration office of the Czech Ministry of Defence, where he was primarily responsible for financial analyses and the reporting and preparation of budgets. In the following years, he worked in various management positions (i.e. as a chief accountant, CFO, manager, head of operations, crisis manager, executive director) for numerous companies. Between 2000 and 2005, he worked for ArvinExhaust s.r.o. (later ArvinMeritor), initially in the position of the finance and logistics manager, then as the statutory executive and CEO of the company. Between 2005 and 2006, he was the Production Control & Logistics Manager at the American company Delphi Packard Electric Systems. Between 2006 and 2007, he was the Chairman of the Board of Directors of Plasty Holding a.s. He gained management experience by managing plants in France (Plasty Roubaix SAS) and in Pamplona, Spain. Since 2009, he has been a member of the Board of Directors at MTA Plastic, a.s.

#### 4. Sonny Sonnberger

Member of the Board of Directors (from 23<sup>rd</sup> August 2011), age: 54

Sonny Sonnberger graduated from Charles University in Prague. He emigrated to the USA in 1980 where he graduated from Montclair University, New Jersey. He has over twenty years of experience in transportation, logistics, storage, sales and marketing. He has had excellent results abroad, primarily in business development, project management, sales and marketing. He started his working career in New Jersey, the USA, as the Head of Operations at UPS. He gradually worked his way to the position of the CEO of Menzies Aviation for Eastern Europe; its Czech branch operates at the international airport in Prague. Before joining ČD Cargo, a.s., he worked as the Operations Manager of the Advanced World Transport (AWT) Group for less than a year.



**Gustav Slamečka**  
Chairman of the Board of Directors (1.1)



**Jiří Špička**  
Member of the Board of Directors (1.2)



**Jan Vlasák**  
Member of the Board of Directors (1.3)



**Sonny Sonnberger**  
Member of the Board of Directors (1.4)



**Petr Žaluda**  
Chairman of the Supervisory Board (2.1)



**Miroslav Zámečník**  
Member of the Supervisory Board (2.2)



**Milan Špaček**  
Member of the Supervisory Board (2.3)



**Zdeněk Prosek**  
Member of the Supervisory Board (2.4)



**Radek Nekola**  
Member of the Supervisory Board (2.5)



**Jindřich Nohal**  
Member of the Supervisory Board (2.6)



**Vít Veselý**  
Member of the Board of Trustees (3.1)



**Jiří Franc**  
Member of the Board of Trustees (3.2)



**Jakub Kopřiva**  
Member of the Board of Trustees (3.3)



**Oldřich Vojř**  
Chairman of the Audit Committee (4.1)



**Libor Joukl**  
Member of the Audit Committee (4.2)



**Miroslav Zámečník**  
Member of the Audit Committee (4.3)

### Changes in the Composition of the Board of Directors

On 7<sup>th</sup> June 2011 České dráhy, a.s., appointed Gustav Slamečka the Chairman of the Board of Directors of ČD Cargo, a.s. effective as of 8<sup>th</sup> June 2011 while acting in its capacity as the sole shareholder in the Company performing the role of general meeting.

On 21<sup>st</sup> June 2011, České dráhy, a.s. decided to dismiss Jiří Vodička from his position as the Chairman and a member of the Board of Directors effective as of 21<sup>st</sup> June 2011 and to appoint Jan Vlasák as a member of the Board of Directors effective as of 21<sup>st</sup> June 2011 while acting in its capacity as the sole shareholder in the Company performing the role of general meeting.

Gustav Slamečka was appointed the Chairman of the Board of Directors effective as of 23<sup>rd</sup> June 2011 at and extraordinary meeting of the Board of Directors held on 22<sup>nd</sup> June 2011.

On 23<sup>rd</sup> August 2011, České dráhy, a.s. dismissed Milan Matzenauer from his position as a member of the Board of Directors and appointed Sonny Sonnberger to the position of a member of the Board of Directors while acting in its capacity as the sole shareholder in the Company performing the role of general meeting.

### 3. Milan Špaček

Member of the Supervisory Board (from 1<sup>st</sup> December 2007 to 30<sup>th</sup> November 2008 and since 1<sup>st</sup> December 2008), age 59  
Milan Špaček graduated from the Faculty of Medicine of the UJEP University (at present Masaryk University) specialising in paediatrics. In 1980, he joined the Znojmo Hospital as a paediatrician. From 1992 to 1997, he was the Director of the Children's Centre in Znojmo. He was a member of the Administration Board of the General Health Insurance Company in Znojmo from 1992 to 1996. Since 1994, he has been a member of the Znojmo Town Council. In 1996, he was elected a senator from Znojmo electoral district no. 54; in the Senate, he was the Chairman of the Senate Standing Committee for Expatriates and the Vice Chairman of the Defence and Security Committee. Between 2003 and 2004, he held the position of the First Deputy Health Minister and was a member of the Administration Board of the Trauma Hospital in Brno. In 2004, he was re-elected a senator for the Znojmo region in a by-election and held the positions of Vice Chairman of the Healthcare and Social Affairs Committee and Vice Chairman of the Senate Standing Committee for Media. From 2000 to 2003, he was a member of the Regional Council of the South Moravian Region. At present, Milan Špaček is the Director of the Children's Centre in Znojmo.

### 4. Zdeněk Prosek

Member of the Supervisory Board (since 23<sup>rd</sup> August 2011), age: 61  
Zdeněk Prosek graduated from a construction secondary school; he studied at the Construction Faculty of the Czech Technical University in Prague. Following his incomplete studies, he initially worked as a technician in a construction firm, but then accepted the position of head of investment construction at Prefa Přeštice. In 1990, he was appointed the Deputy for Economic and Technical Development to the Mayor of Pilsen. He was the Mayor of Pilsen from 1994 to 1998. From 1996 to 1998, he was a delegate to the Congress of Local and Regional Administrations connected to the Council of Europe for the Czech Republic. He was the HR director at the ŠKODA STEEL consortium for eight years. From 2006 to 2010, he was a member of the Chamber of Deputies of the Czech Parliament and was active in its Economic and Constitutional Committees. From 1993, he was member of the bodies in numerous companies, i.e. the Chairman of the Board of Directors at Plzeňský holding, a.s. (1993–1995), a member of the Board of Directors at the American Center Plzeň (1999–2000) and a member of the Supervisory Board at Pilscebel, a.s. (1993–1994), the Pilsen City Transport Company (1998–1999) and České dráhy, a.s. (2007–2011).

### 5. Radek Nekola

Member of the Supervisory Board (from 1<sup>st</sup> December 2007 to 30<sup>th</sup> November 2008 and since 1<sup>st</sup> December 2008), age: 47  
Radek Nekola graduated from the Prague Technical Vocational Secondary School and the Secondary School of Transport in Prague specialising in operations management. In 1981, he joined the former Československé státní dráhy as a motor vehicle machinist in the Railway Vehicle Depot

## Supervisory Board

### 1. Petr Žaluda

Chairman of the Supervisory Board (a member since 25<sup>th</sup> August 2010, the Chairman since 5<sup>th</sup> October 2010), age: 45  
Petr Žaluda graduated from the Brno University of Technology; he completed courses at Utrecht University and the Sheffield School of Business. He worked at Stork Demtec as a Country Manager. From 1993 to 1996, he was a Branch Office Manager at Ernst & Young. In 1998, Petr Žaluda became the Chief Executive Officer and the Chairman of the Board of Directors at the 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. He has held the position of the Chairman of the Board of Directors and the Chief Executive Officer of ČD, a.s. since 1<sup>st</sup> February 2008.

### 2. Miroslav Zámečník

Member of Supervisory Board (since 22<sup>nd</sup> June 2010), age 49  
Miroslav Zámečník graduated from the University of Economics in Prague and was a Pew Fellow at the School of Foreign Service at Georgetown University in Washington. From 1990 to 1993, he worked as an advisor of the Federal Minister of Finance and then as the head of the Centre for Economic Analysis of the Office of President Václav Havel. Between 1994 and 1998, he was represented the Czech Republic at the World Bank in Washington. Since 2001, he has worked as an independent economic consultant specialising in the restructuring of companies. He is a member of the Czech Government's National Economic Council. In addition, he is also the Chairman of the Audit Committee of České dráhy, a.s.

in Ústí nad Labem. He joined ČD Cargo, a.s. on 1<sup>st</sup> December 2007; he has a long-term contract to act as the Chairman of the ČD Cargo Committee of the Railway Workers Union (OSŽ). Radek Nekola is also the Deputy Chairman of the Railway Workers Union (OSŽ).

#### 6. Jindřich Nohal

Member of the Supervisory Board (since 1<sup>st</sup> December 2008, elected by the Company's employees), age: 58

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

#### Changes in the composition of the Supervisory Board

On 23<sup>rd</sup> August 2011, České dráhy, a.s. dismissed Michal Nebeský from his membership in the Supervisory Board and appointed Zdeněk Prosek to the position of a member of the Supervisory Board acting in the capacity of the sole shareholder in the Company performing the role of general meeting.

## The Board of Trustees

#### 1. Vít Veselý

Member of the Board of Trustees (since 13<sup>th</sup> December 2011), age: 32

Vít Veselý graduated from the School of Law at Charles University in Prague. He has worked in the legal profession since 2004 and has been an attorney-at-law since September 2007. He focuses on administrative, business and civil law, primarily real estate and construction law, public tenders and intellectual property law. He is the holder of the Lawyer of 2008 prize in the Talent of the Year category. He publishes in the professional press; he is also a member of the collective of authors of the Current Contract Templates for Business Relationships manual.

#### 2. Jiří Franc

Member of the Board of Trustees (since 15<sup>th</sup> September 2010), age: 54

Jiří Franc graduated from the Faculty of Mechanical Engineering at the Czech Technical University in Prague specialising Engineering Company Management and he has completed the Gustav Käser Training and Mercuri International professional management courses. He was the Regional Director of IPB, a.s. and ČSOB, a.s. from 2001 to 2002 and the Vice President for Contract Conclusion at Aero Vodochody, a.s. From 2003 to 2005, he was the Head of the Prague Castle Administration. In 2005 and 2006, he worked for the Czech National Bank as the Deputy Director in the Cash and

Payment Transaction Section. Until 2010, he was the Executive Manager and a member of the Board of Directors of the BASCEKO, a.s. advisory company focusing on, amongst other things, the implementation and funding of restructuring projects in cooperation with private investors and banks. In the second half of 2010, he was the Senior Director of the Finance Section at the Czech Ministry of Transport; from 28 October 2010 to 26 April 2011, he was the Deputy Minister of the Interior for Economics and Operations. He is a lecturer at the London International Graduate School. At present, he focuses on the transformation of state companies into joint stock companies and advises the top management of private companies.

#### 3. Jakub Kopřiva

Member of the Board of Trustees (since 15<sup>th</sup> September 2010), age: 31

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

#### Changes in the composition of the Board of Trustees

Chairman and member of the Administration Board, Martin Sýkora, resigned from these positions by means of written notification made on 16<sup>th</sup> May 2011. At its 22<sup>nd</sup> meeting held on 2<sup>nd</sup> June 2011, the Board of trustees discussed and acknowledged Martin Sýkora's notification of resignation by means of its resolution no. 142/2011.

On 13<sup>th</sup> December 2011, České dráhy, a.s. appointed Vít Veselý as a member of the Board Trustees acting in the capacity of the sole shareholder in the Company performing the role of general meeting and at the suggestion of the Czech Ministry of Transport.

## Audit Committee

#### 1. Oldřich Vojří

Chairman of the Audit Committee (a member since 15<sup>th</sup> December 2009, Chairman since 18<sup>th</sup> February 2010), age: 50

Oldřich Vojří graduated from the Education Faculty at Jan Evangelista Purkyně University in Ústí nad Labem and completed his doctorate at the Transport Faculty of the University of Pardubice. He has been a Member of Parliament, and has managed or supervised business, power and transportation companies. At present, he manages a transportation technology company in Ostrava.

#### 2. Libor Joukl

Member of the Audit Committee (since 15<sup>th</sup> December 2009), age: 45

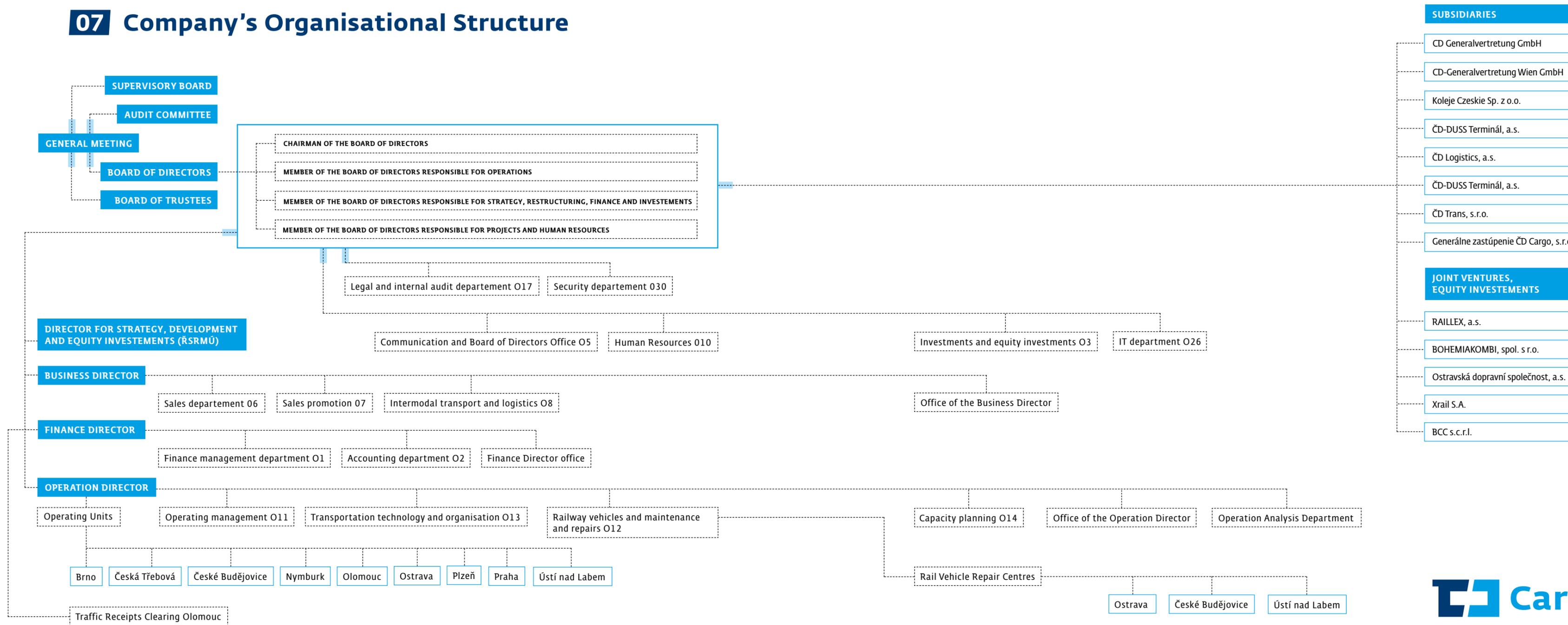
Libor Joukl graduated from the Faculty of Mechanical Engineering at the Brno University of Technology. In 1989, he joined ŽDAS in Žďár nad Sázavou dealing with plant equipment construction and design. From 1991 to 1992, he worked as an independent agent for the PENTA Žďár nad Sázavou advertising agency. He has been self-employed since 1992. Between 1994 and 2000, he worked as the Production Manager of JMZ-CATONEX s.r.o. In 2000, he became the Statutory Executive and Director of APOLY s.r.o. Přebyslav. He has been a member of the Town Council of Přebyslav since 2002. He was a member of the Supervisory Board of MERO, a.s., Kralupy nad Vltavou from 2003 to 2006 and its Vice Chairman from 2004 to 2006. Since 2004, he has been a member of the Regional Council of Vysočina; in November 2008, he became the Deputy Governor for Transportation and Property of the Vysočina Region. He is a member of the Vysočina Regional Council Board. Since November 2010, he has been a member of the Board of Trustees of the Správa železniční státní dopravní cesty state organisation.

#### 3. Miroslav Zámečník

Member of the Audit Committee (since 15<sup>th</sup> December 2009), age: 49

Miroslav Zámečník graduated from the University of Economics in Prague and was a Pew Fellow at the School of Foreign Service at Georgetown University in Washington. From 1990 to 1993, he worked as an advisor of the Federal Minister of Finance and then as the head of the Centre for Economic Analysis of the Office of President Václav Havel. Between 1994 and 1998, he was represented the Czech Republic at the World Bank in Washington. Since 2001, he has worked as an independent economic consultant specialising in the restructuring of companies. He is a member of the Czech Government's National Economic Council. In addition, he is also the Chairman of the Audit Committee of České dráhy, a.s.

# 07 Company's Organisational Structure



## SUBSIDIARIES

- CD Generalvertretung GmbH
- CD-Generalvertretung Wien GmbH
- Koleje Czeskie Sp. z o.o.
- ČD-DUSS Terminál, a.s.
- ČD Logistics, a.s.
- ČD-DUSS Terminál, a.s.
- ČD Trans, s.r.o.
- Generálne zastúpenie ČD Cargo, s.r.o.

## JOINT VENTURES, EQUITY INVESTEMENTS

- RAILLEX, a.s.
- BOHEMIAKOMBI, spol. s r.o.
- Ostravská dopravní společnost, a.s.
- Xrail S.A.
- BCC s.c.r.l.

## 08 Report of the Board of Directors on the business activities of ČD Cargo, a.s. and its balance of assets

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

### Freight Transport Operations

#### FREIGHT TRANSPORTATION

In 2011, ČD Cargo, a.s. trains transported 78.7 million tonnes of goods, which is 2.6 % more than in 2010. This increase was predominantly due to combined transport (11% increase in tonnes), and other commodities (29%; however, these are relatively small volumes in absolute figures). In a year-on-year comparison, the worst results were in coal and coke (-15%). Intrastate transportation increased year-on-year by 6.7%; however, transit transport decreased by 12.6%. Overall, international transportation dominates, which corresponds, amongst other things, to the data on the growth of Czech exports.

The Company remained in fifth position in the EU transport market. The Company's share of the local railway transport market amounted to 86%, which despite the slight decline constitutes a significant success when considering the growing competition, especially in the sector of block trains.

The growth trend was due to a revival in certain industrial sectors and to the company's active policy and internal savings measures, including a further increase in work productivity. Sales of transported goods amounted to 12.43 billion CZK, which is an increase of 3.2% compared to 2010. The Company's total sales and income in the year ending 31st December 2011 amounted to 15.05 billion CZK. The effectiveness of the adopted savings measures is confirmed by the fact that transportation output in gross-tonne-kilometres hauled decreased year-on-year by 0.5% and in net-tonne-kilometres hauled increased year-on-year by 0.2%.

In 2011, the transportation of solid fuels accounted for more than 30% of the Company's total transports. The situation regarding this commodity, however, was not an easy one in 2011 as the transportation of both of these bulk cargos decreased by more than 15% as a result of problems in the mining of coal and the customer's lack of interest in coke. In addition, the Company also lost certain transactions. However, the transportation of brown coal increased by 8% although competition increased in this segment in 2011 and other transporters seeking to use their capacities in the transportation of brown coal managed to enter the market. The Company newly transported brown coal from North Bohemian mines to the reloading terminal in Písečná in Jeseníky for further distribution to the Polish market. Transportation of brown coal from Světko - Ledvice

and Březno u Chomutova to Třemošná u Plzně was restarted and developed, primarily on the railway siding in Chrást u Plzně, which was repeatedly put into operation. The transportation of solid fuel was affected by the warm start to the winter and the concurrent lower demand.

The transportation of iron and engineering products was positively affected by the global stabilisation of this segment and experienced about 2% growth in the transported volumes. A significant case concerning this commodity in 2011 involved the import of pipes from Turkey and Italy in smaller amounts for the construction of the Gazelle pipeline in North-Western Bohemia. These shipments headed to a number of stations (often on local tracks) in block trains according to the progress on the construction. At the end of the year, ČD Cargo, a.s. was successful in its competition with road transportation and transported more than 10 thousand tonnes of steel sections for a significant customer. As part of the project for opening a customer centre, the transportation was carefully supervised and the quality of the service persuaded the customer with regard to the reliability of ČD Cargo, a.s. Rails for construction in Europe and Asia have been transported in a similar manner.

The liquid fuel and chemical product segments also experienced tough competition. Nevertheless, the Company has maintained its volume at a stable level of approximately 5.3 million tonnes per year. This is predominantly thanks to the fact that the Company, unlike other railway transporters, has managed to satisfy customer requirements for transport in both block trains and individual freight wagons or groups of wagons. This constitutes an undoubted competitive advantage for the Company. In August 2011, the Company started to transport bio-alcohol from the distillery in Vrdy u Čáslavi to various recipients in the Czech Republic. As a result, the Company further strengthened its position in the transportation of bio-components. An especially positive trend was reported in relation to the transportation of mineral fertilisers, primarily in the Czech Republic, where a predominant part of the transportation was obtained in competition with road transporters.

Although construction production continues to decline, the Company managed to increase the transport of construction material by almost 8%. Such transport largely includes the transport of desulphurising commodities to power plants and dolomite limestone as a necessary raw material for metallurgical production. Volume increases were additionally positively impacted by winning contracts for the transportation of cement from Turňa nad Bodvou to Beroun - Závodí from AWT transporter in February 2011. ČD Cargo trains transported glass sand to recipients in the Czech Republic and abroad. The Company additionally developed interesting transportation opportunities for precast concrete units from the Goldbeck Skovice (near Čáslav) plant for various construction projects in Germany, and initiated negotiations on the renovation of a railway siding and the start of similar

transportation from the fellow subsidiary plant in Tovačov in the Přerov region. The Company additionally focused on the transportation of soil and sediments that were successfully transported using Innofreight containers which allow the transportation of primarily bulk cargos using a single transportation unit from the loading point to the unloading point. This system transported, for example, sediment from Ostrava lagoons to Litvínov for further storage and liquidation. The use of Innofreight containers saved 55 truck trips per day.

The transport of wood and paper products decreased year-on-year by more than 4% - the transport of wood decreased by 5.5%; however, paper products increased by 3.4%. The decrease in wood transport was primarily due to the unclear situation around the tenders for silvicultural and felling work from the Lesy České republiky company and the resulting decreased logging, while the increase in the transportation of paper products was caused by the improvement in the global economic situation and the resulting increase in the demand for consumer goods. The transportation of wood chips increased once again thanks to the Innofreight containers; this was primarily part of a new project implemented for Plzeňská teplárenská - the transportation of wood chips from various loading sites in Southern and Western Bohemia to a boiler plant in Pilsen. This transport has a large business potential and will be further developed.

The combined transport of the Company saw a repeated increase in 2011. In cooperation with the operators of combined transportation, the Company increased the number of trains from/to North Sea ports and inland terminals in the Czech Republic (Havířov, Želechovice) and abroad (Salzburg, Dunajská Streda). In addition, the Company initiated certain significant projects in the transporting of road semi-trailers by ČD Cargo trains in 2011. At the beginning of the year, these projects included transporting semi-trailers belonging to the Ewals Cargo Care transporter from Lovosice to Ostrava (as the extension of lines from Germany to Lovosice) which were followed by the introduction of new trains from Rostock to Brno transporting LKW Walter semi-trailers to their own terminal in Brno-Horní Heršpice at a frequency of two pairs a week. The aforementioned lines from Germany to Lovosice are increasingly being used by other transporters; the most significant new Czech customers include ČSAD Ostrava.

The automotive commodity reported positive results in 2011 (growth by 4.9%). All three Czech car producers (Škoda Auto, TPCA Kolín and Hyundai Nošovice) are significant customers of the Company. The only unfavourable event occurred in the autumn when the Company discontinued shipping by railway from the Škoda Auto Vrchlabí plant. Thanks to its location in the middle of Europe, the Czech Republic is a significant transit country, which naturally impacts the transport of cars from car producers in Slovakia (VW Devínská Nová Ves, PSA Trnava and Kia Žilina) transported by ČD Cargo trains filled with VW cars in the other direction for export to Eastern Europe and overseas. The automotive sector is a sector with great potential in the future, particularly in the supply of components for production and export overseas, primarily to China and India. This primarily involves transportation in containers.

In the food and agricultural product sector, the Company transported approximately 130 thousand tonnes less in 2011. This is due to both the situation

in the grain market and intensive competition in the Czech transportation market where several transporters specialise in the transportation of grain, usually closely connected to significant agrarian shippers and multinational companies. A number of transports were directed outside the territory of the Czech Republic to railways through Austria and Germany. It is encouraging that the Company has repeatedly managed to penetrate the sugar beet transportation segment. Its further development and especially an increase in volume is also anticipated for 2012.

In 2011, the Company realised a range of transports of oversized and special technology. In spring, these included the transport of transformers from ETD Píseň to Bílina, followed by articulated trolleybuses from Skoda Pilsen to Prešov, Slovakia at the end of summer. In addition, the Company realised several significant transports for the Company's long-term business partner, the Czech Army. Probably the most significant was the return of the Czech military mission from Kosovo, which involved several block trains from Macedonia to Pardubice in the second half of the year.

Several successful business transactions from the logistics sector should be mentioned. The Company developed transports of palletised goods from Vamberk to a newly-built DB Schenker logistics warehouse in Pardubice Semtín which proved to be viable even though the railway is only used for very-short distances. Another successful example was the beginning of transports of unit goods for Lagermax between Prague-Ruzyně (where a railway siding was renewed for this purpose) and Ostrava by "night skip". In addition, the Company obtained new goods for the storage hall in Lovosice.

Although the Company lost the transportation of sweets from Opava to Středokluky (a change in the logistics strategy), it managed to maintain the transports from Nestlé Olomouc to the same warehouse and has also managed to increase these volumes slightly. In addition, the Company transported bottled water from Teplice nad Metují to various recipients in the Czech Republic and abroad. Another interesting example is the increase in the volume of transported glass bottles from a glassworks in Nové Sedlo u Lokte to Budvar České Budějovice. The fact that the Company does not underrate this market segment is proved by the preparation of the ČD Cargo plus product which should create a simple system of "from house to house" transport in cooperation with the Czech post Office and which should present the railway to smaller companies which have not used it so far.

#### ROLLING STOCK AND ROLLING STOCK MANAGEMENT

In 2011, the Company attempted to adjust its rolling stock to the needs of the transportation market with the aim of increasing the operability of the wagons in international transport. The Company focused on modernising selected wagon series. The order for the modernisation of 200 Eas wagons intended for the transport of loose bulk cargo was completed. The modernisation involved the replacement of a combined floor with a metal floor and the completed exchange of the wagon body. A significant achievement was the creation of 50 Hillmrrss units by connecting existing Hbbillns wagons which had not attracted much interest. The wagon unit has a large cargo surface divided into two wagon parts and an extraordinary cargo volume, which can be primarily used for the transport

of light and voluminous goods. In order to test transports, the Company prepared a mini-series of 5 Tams series wagons with an added iron floor. In addition, the Company intensively prepared the order for the modernisation of the Zaes series tanker wagons consisting of the insulation of the pressure vessel and the subsequent determination for the transport of dark products such as bunker oil, coal tar, etc. The Company extended the rolling stock through a series of wagon leases involving the Rmms series which is primarily adequate for transports of wide ship sheets and wagons for the transport of grain and loose food products from the Uagpps series. With respect to rolling stock management, the Company paid significant attention to, and will continue to do so, on the planning and use of the wagon capacities in 2011 and subsequent years. The objective of these efforts is to minimise the number of wagons for the contracted transportation work and thus to minimise the amount of funds invested in maintaining the stock. The Company regularly assesses the use of wagon capacity as part of its reporting and identifies key problems according to the individual business groups of wagons. The redundant wagon capacity will be used in other business activities for leasing purposes so that the management of the available rolling stock is optimised and additional sources are provided to ensure operability. The Company's rolling stock comprised 951 traction vehicles and 27 thousand wagons in 2011. Although the financial restrictions in the expense plan continue to be in place, it can be stated that the operation and maintenance tasks, specifically covering the railway vehicle shift requirements, were met.

#### Wagons

The drawing of funds from the financial plan for the repair of wagons was balanced in 2011. However, the number of completed inspection repairs was lower than anticipated due to procedural reasons in tenders. Planned repairs were completed by both external suppliers and using the Company's own capacity – the in-house Railway Vehicle Servicing Centres. With regard to the damage to wagons, specifically the category of damage incurred during loading/unloading, the Company continued a higher clear-up rate in 2011, which was positively reflected in the payment of expenses incurred during the repair of wagons.

Technical improvements to wagons included the renovation of the floors in 200 Eas series wagons, whereby the original wooden floors were replaced with a more adequate iron floor. In addition, the wagons intended for training staff to handle trains and the accompanying trains used in special transports were also modernised.

In 2011, a new type of brake lining made from a special compound without the use of metal components, i.e. LL non-ferrous blocks, continued to be tested in the Eas series group of wagons. The objective of the project is to test new materials which are more environmentally friendly and reduce noise in the areas surrounding the railway track. At the end of the year, the testing of the LL blocks was discontinued and the assessment report was delivered for discussion at an international level at the UIC.

#### Traction Vehicles

The development of the need for traction vehicles was similar to that of wagons. The increased need for operated locomotives was recorded in both electrical and diesel traction. This was reflected in the greater requirements

for the activities of the repair shops at the level of both planned maintenance and unplanned repairs.

Locomotive maintenance and repair was primarily provided by the in-house Railway Vehicle Servicing Centres. Additional maintenance capacities were provided by Depo kolejových vozidel Českých drah, a.s., and DPOV, a.s., Přerov.

With regard to investments, the Company made partial modifications to the locomotives called "changes in the approved status". During 2011, the Company continued its work on modernising the 163 series locomotives to the 363.5 series and another four locomotives were brought into testing operations. Another significant project was the start of the assembly of the GSM-R system vehicle radio station in a selected number of locomotives. This investment was also funded using European funds from the Transport Operating Programme.

In order to save funds for the operation of diesel locomotives, the Company completed the testing of an alternative FAME fuel in 2011. Further use of the fuel has been postponed.

#### OPERATIONAL MANAGEMENT

The operational management falls under the competence of the Operational Management Section (hereafter simply referred to as "Section 11"). Its organisational structure and staffing underwent changes during the year which were aimed at increasing the effectiveness and improving the quality of all its activities in accordance with the Company's requirements.

At the beginning of the year, Section 11 consisted of two departments in the new structure (Operational Management and Wagon Operation Management). During 2011, the possibility of completing the centralisation of the operational work management, which would result in the transfer of two dispatching workplaces from Ústí nad Labem to Česká Třebová, was discussed. The plan was not implemented in 2011. At the end of the year, the Company made another organisational change that affected the work of both departments.

#### Operational Management Department

The dispatch centre at the Operational Management Department organised the operations of the Company's freight trains in cooperation with other sections. In exceptional cases, it decided on the freight transport priorities based on the Company's business interests. It thus fulfilled the role of the transportation company's dispatch centre and cooperated closely with the dispatch system of the SŽDC railway operator. In 2011, the average number of the Company's trains was 1,185 per day. Of this number, 28 trains per day were in the ad hoc regimen, i.e. trains ordered by customers with a shortened planning period.

The operations of all the Company's trains were subject to the train transport flow chart. The transport of direct complete trains provided according to the requirements of customers in decisive commodities was organised by product system specialists from Section 11. The transport of goods was planned according to commodities (coal, iron-chemicals-grains, wood-building materials, cars and combined transport). The transport of cars was separated from the

former common combined-car transportation category due to the increase in the transported volume. The last category included other product transports. The product system specialists from Section 11 further discussed the transport of trains in the ad hoc regimen where they provided locomotives and crews. A significant aspect of the activities of the product specialists was customer feedback. This task is assessed positively by the transporters.

The principal task of the Company's dispatch centre is the preparation of the shift plan which is a significant instrument for the organisation of operational work. It includes all the Company's trains for the near future planning period. The plan itself is prepared by the relevant principal planning dispatcher through the Company's freight transport operations supervision who is concurrently the head of the shift for the allocated district under the operational unit. The necessary adherence to the quality of the freight train operations is assured by the principal control dispatchers.

The dispatch centre is located in Česká Třebová with a detached centre in Ústí nad Labem. The shift leader for the entire SŽDC network is the central dispatcher who manages the activities of DAC, coordinates the creation of the shift plan and, based on the available information, issues operating measures for the realisation of the plan. He adopts the necessary measures in extraordinary situations. In addition, he is also responsible for maintaining contact.

At the end of the year, DAC underwent an organisational change dated 20<sup>th</sup> December 2011. The reassessment of the scope of activities resulted in the optimisation of the number of workplaces for the principal planning dispatchers in Česká Třebová, which specifically led to the closure of the separate "HDP Olo-mouc" sector. This change brought a headcount saving of 5 employees.

In order to ensure the smooth handover of trains at the border crossings with DB (Děčín – for all crossings), the Company continued to use the common dispatch centre with ČDC and DB (Dispostelle) as part of the DAC structure. Its mission is to coordinate the mutual handover of trains at the border transit stations between the Czech Republic and Germany.

An operational management information system (ISOŘ) is used for the operational management. As a result of the increasing number of customers who are taking advantage of block trains without an assigned regular track planned in advance, the number of requirements for the assignment of transportation capacity and train tracks with short deadlines (ad hoc) is increasing. The railway operator introduced the KADR information system to deal with the requirements through which the transportation capacity and route of the train is allocated.

At the end of the year, as part of the Operations Programme of Transportation, the development of a new DISC – OŘ programme began to be developed. This should help to achieve improved and more effective train planning, especially the planning of ad hoc trains and the requirements for these trains. The requirements are received from customers and entered into IS KADR by Operational Management Department.

The organisational change made in 2011 also monitored the increase in work effectiveness in the organisation of the transportation of extraordinary shipments, the armed forces and nuclear fuels. Its fulfilment brought

a decrease in the number of employees in the department by another two employees, while the same scope of activities was maintained.

#### Freight Vehicle Operation Management Department

The dispatch management of freight vehicle operations is organised into four vehicle divisions for the management of ČDC vehicles in the Czech Republic and one vehicle division for the management of other ŽDP (former national transporters) located outside the Czech Republic. This group includes two detached workplaces in Ústí nad Labem and Ostrava which satisfy the requirements of key customers (in coalfields and metallurgical plants). At the end of 2011, the Company made an operational change leading to a headcount saving of two employees.

The freight vehicle operation dispatch management managed 79 districts of vehicle dispatchers/managing clerks at PJ ČD Cargo, a.s. The modification to the IS ÚDIV system allowed a reduction in the number of these districts to 51. This increased the effectiveness of the work with vehicles and saved PJ ČD Cargo, a.s. costs.

The principal activities of the freight vehicle operation dispatch management include the complete and effective satisfaction of customer requirements by wagons. Another significant part of the work is the satisfaction of shipping company requirements for the transfer and extension of the managed vehicles. Other activities include the collection of vehicles for the preparation of complete trains to foreign countries that directly relate to the formation and development of Koleje Czeskie in Poland. In 2011, a total of 764,028 vehicles of all series were provided to customers, i.e. 98.16% of all ordered trains.

The data management and administration group is the only group in ČDC that is charged with supervising the correctness of the data acquired by the operations employees and its correct transfer between the information systems. These information systems include CNP, CVA, ÚDIV, CEVIS, KNV, ISR, EMAN, ISOŘ, TSV and others. In 2011, IS PRIS was launched and it should replace the obsolete CEVIS in the future. The introduction of IS PRIS resulted in an increase in the number of incorrect data caused by the employees' lack of experience with the new system; the gradual introduction of logics tests should bring an improvement.

In addition, this group works as a HelpDesk for ÚDIV information system and provides online advisory activities for operations management, including solutions to problems arising from the transfer of incorrect information. It also administers the ÚDIV information system, in which it makes changes in the settings according to the requirements of PJ ČD Cargo, a.s., reserves vehicles according to the requirements of the Company's commercial representatives and closely cooperates with information system developers with regard to further improvements and adjustments according to any changes involving the introduction of new technologies in the Company. It provides outputs from the information system according to the requirements of the Company's various management levels and the requirements of customers for maximum and objective information about the fulfilment of their requirements.

#### OPERATIONAL SAFETY

In 2011, 341 extraordinary events (EE) according to section 49 of the Railways Act 266/1994 Coll. occurred with the Company participating as the rail transport operator or the railway operator, of which 146 EEs were

the Company's responsibility. The total losses arising from the aforementioned EE amounted to 105.7 million CZK, of which the Company suffered losses worth CZK 36.4 million. During the EE, a total of 39 people were killed, of which one employee of the Company was killed during work without the Company being at fault. Other people were killed while present in restricted areas along the railway track and during collisions at crossings. A total of 24 traction vehicles and 75 rail wagons owned by the Company were derailed.

#### The results of the investigations into the 2011 EEs are as follows:

- Most of the monitored data is comparable to the data from 2010. It is necessary to consider the change in the recording of EE category C8 "a premature change in the signal of a principal signalling device" in the total number of EE. Based on the overall summary, it can be said that there was an overall decline in all EEs by 4% in comparison with 2010.
- A significant increase was noted in the amount of the overall damage; an increase of 33% in 2011. With regard to the damage to the Company, this involved a decrease of 13% in comparison with 2010.
- None of the railway crossing collisions or collisions with a person was the Company's fault; and
- None of the EEs was caused by a system failure.

Before 31<sup>st</sup> August 2011, EEs were investigated for the Company by Section 18 of the General Directorate of ČD, a. s. in accordance with a contract concluded according to Section 9 of Regulation no. 376/2006 Coll. governing the safety systems for railway operations and transportation and the procedures for extraordinary events on railways, as amended. This contractual activity was transferred to the railway operator Správa železniční dopravní cesty, a state organisation, on 1<sup>st</sup> September 2011 in accordance with governmental decree no. 100/2011 dated 9<sup>th</sup> February 2011.

Five serious accidents occurred (four collisions of trains and one derailment) during 2011. Two collisions were the responsibility of a specific Company employee. The immediate cause in both cases was the failure to respect the instructions of the route operator for the train journey. In these two EE, the damage amounted to 15.1 million CZK. With regard to the serious accident (the derailment), a Company employee was killed due to an error made by a railway operator employee organising the railway traffic.

## Information on the Balance of the Company's Assets

#### THE COMPANY'S REAL ESTATE

In addition to the usual elementary means of production, such as rail vehicles, the Company also owns real estate, without which the Company's

business activities would be restricted. Therefore, such real estate can be considered to be strategically significant. A total of 224 buildings and 222 plots of land owned by the Company are registered at the Czech Land Registry. Regular maintenance of the real estate is carried out by the Rail Vehicle Repair Centre itself in line with the financial plan; the investment activities are carried out in line with the Company's general directorate.

#### LEASING RAIL VEHICLES

One of the Company's significant business activities also includes the leasing of rail vehicles, i.e. freight wagons and locomotives. With regard to locomotives, these are primarily long-term leases with our partners. These include redundant and unnecessary traction vehicles, solely for use within the Czech Republic.

With regard to the leasing of wagons, we provide our customers with both long-term and short-term leases or the repeated leases of vehicles for the hedging of spot and one-off transactions. The Company has sufficient vehicle capacity available for these purposes and offers the leasing of all wagon series, including tankers. Information on the rolling stock can be found in the online 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, to create a new corporate identity and to increase brand awareness. The Company set the priorities for its business activities in the following period after consultation with the Sales Department and thus set the objectives for the individual marketing campaigns and activities for 2011. These objectives related to the promotion of a new Company product and an increased focus on combined transport and the increased use of the logistics hall in Lovosice. Throughout the year, the Company promoted itself in all types of media, i.e. TV, radio, print and the internet. The advertising in the individual media was duly planned and focused on the existing and potential future customers and the public with the objective of strengthening the Company's brand awareness.

#### WEB PRESENTATION

A significant means of communication for ČD Cargo, a.s. included the [www.cdcargo.cz](http://www.cdcargo.cz) website for our business partners and customers. In 2011, the website based on the Company's design manual recorded growing customer interest which meant that it required regular development and updating. During the year, the website was developed and new links and information were added. The Company primarily worked on the development of a new operational-business system which included the **E-ROZA** project (electronic customer interface) dealing with the creation

of a single web and data interface between ČDC systems and customers. The project followed the successful developments in electronic sales in intrastate transportation. Similarly, the Company's employee intranet, which is a significant information and communication medium between employees and management, was developed and expanded.

#### PRINT AND MEDIA COMMUNICATION WITH CUSTOMERS

ČD Cargo, a.s. continued to publish the quarterly CARGO Motion magazine, which is published in a dual Czech-English version and provides information about the world of railway freight transport and related services. It is predominantly intended for the senior managers of cooperating companies, for state sector representatives and for selected secondary schools and universities focused on transportation. The publication of the Cargo Quarterly Bulletin which predominantly focuses on the business community and, in addition to general information on railway freight transport, includes information on legislation and other legal requirements in this area was suspended in 2011. The internal company Cargovák newspaper, the publication of which was renewed in September 2010, was available to employees in both printed and electronic form in 2011. This monthly is intended exclusively for the Company's employees and includes the latest information on the Company's development.

#### TRADE FAIRS AND CONFERENCES

In 2011, ČD Cargo participated at all the significant European transport and logistics trade fairs (TransRussia Moscow, Transport Logistic Munich and Transport and Logistics Brno, part of MSV Brno) and it had a presentation at the local Czech Rail-days Ostrava rail technology trade fair. The Company's individual design solution attracted deserved attention and was ranked one of the best at the trade fair. Other significant conferences which the Company participated at included the 2011 IRFC (International Rail Freight Conference) in Prague and the 2011 SpeedChain international logistics conference. Major conferences also included the autumn ČD Cargo conference traditionally organised in Špindlerův Mlýn, which is intended for all of the Company's business partners and focuses on business and pricing policies.

#### RESEARCH AND DEVELOPMENT

During 2011, 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 Transport Faculty at the Czech Technical University etc.). The core of this cooperation included consultation with and the supervision of students during the preparation of their annual theses (end-of-term, bachelor's and master's theses). The topics of the theses were submitted and selected according to their potential contribution to the Company and they concerned a whole range of current and potential problems and issues regarding railway freight transport. They included operational issues, such as the use of the rolling stock, investments in the locomotive fleet, comparisons of weaknesses and the contribution of the modernisation and acquisition of new vehicles and the organisation of operations etc., as well as business issues, such as the possibilities for expanding current commodity transport or gaining completely new transportation orders, and the inclusion of railway transport in consumer goods transport and logistics chains.

ČD Cargo considers the cooperation with the universities to be highly significant, both with regard to seeking and finding new solutions and as a means of recruiting future employees.

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

#### INFORMATICS

All the steps realised in IT in the previous period resulted in the fulfilment of the basic goal, i.e. "the optimisation of the use of information technology to ensure the efficient work and overall management of the Company's expenses and profit".

#### Safety policy and infrastructure

The main pillar of the Company's newly conceived safety and data protection policy is the Identity Manager. In 2011, the Identity Manager was extended to the economic and office systems. This is the principal, and in the future the sole, system for centralised identity management. The purpose of its introduction is the simplification and safe use, creation, administration and maintenance of user identities.

With regard to safety, the Company additionally implemented the SSL certificate from an accredited GeoTrust certification authority which ensures credible and encrypted access to operations applications both for our employees and our business partners. The safety of the communication has been increased as part of the supporting office applications: encrypted emails and secured access to document storage and applications.

In 2011, the Company continued the regular renewal of its end user facilities, i.e. desktops, laptops and LCD panels, including the necessary peripheral equipment (almost 85% of desktops and laptops were renewed). The end user facilities are renewed in regular cycles of 3 and 5 years (3 years for laptops; 5 years for desktops and LCDs) to ensure that the performance and capacity is sufficient for the operation of modern applications and systems. In the second half of the year, the Company initiated preparations for the comprehensive support of the press services.

#### Operations and Business Systems

In 2011, the Company initiated the development of a newly operational Company business information system (PROBIS).

The implementation of the entire system has been managed as a project programme, which has then be further divided into 14 individual projects which will provide comprehensive information support for our Company's operations and business processes.

The PROBIS program's principal asset is the comprehensive nature of the solution. The plan is to create a single operations and business system, the



components of which will be mutually and logically interconnected with the data. The PROBIS concept responds to the current requirements resulting from EU legislation. As part of the individual projects, the Company will take the necessary steps for compliance with the 14 functional areas defined in the TSI TAF (Technical Specifications for Interoperability for Telematic Applications for Freight). The objective of PROBIS is to further increase the quality of the services provided to our end customers, such as information services and the internal increase in the quality of the Company's operational and business data of the. As such, PROBIS will allow us to better allocate services and costs to transactions and to prepare supporting documentation for the assessment of profitability and to support the principle of the long-term and mid-term plan based on pre-orders and it will thus allow the rapid transfer of the plan into real operations.

The project program has been implemented with financial support from the Transport Operating Programme, priority axis 1 – "Modernisation of the TEN-T railway network", sub-programme 2 – "Interoperability of existing railways, compliance with the Technical specifications for the interoperability and development of telematic systems"; its completion is planned for 2013.

#### **Economic Systems and the Company's Systems for Internal Operations**

All the economic system developmental activities focused on the SAP system. Changes in the SAP information system were realised with the basic objective of implementing new functionalities in the standardised version using a minimum of program adjustments. In 2011, the Company completed the implementation of the adjustments focused on supporting the Financial Reporting System (IFRS). The system is now ready to generate supporting documents as part of the consolidated financial statements and to prepare accounting in full compliance with the IFRS.

At the end of 2011, the Company additionally began implementing adjustments in the monitoring of receivables and payables in time, the automatic calculation of provisions against receivables and the resulting work with receivables which are subject to bilateral or multilateral settlement with foreign railways. These adjustments will be ready for routine use during 2012.

A new post-client MS and ČD Cargo internal portal were implemented in the Company's internal operations where employees can share their work documents and use applications supporting common office issues. Applications are created using a general work-flow, where the parameter setting of the simple work procedures is mastered by a trained user without the need for programming knowledge.

#### **International Activities**

In 2011, 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. In order to exchange freight and wagon documents, the Company uses the bilateral 40 application with all

the neighbouring national transporters, with the exception of PKP Cargo. As a member of the international RAILDATA organisation, the Company 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 European legislation, transporter information technology is currently being primarily affected by the TSI TAF technical specifications. TSI TAF deals with 14 telematic issues which define the technical specifications for IT systems. In accordance with these issues, the Company is currently building a new operations and business information system. As part of TSI TAF, the Company is an active member of a group of large transportation companies (a cluster of railway companies). In 2011, the Company actively participated in reviewing the specifications for the train preparation process. The Company has also actively cooperated with SŽDC, s.o. and the parent company ČD, a.s. in the coordination of the gradual TSI TAF implementation.

#### **INVESTMENTS**

In 2011, the Company realised investments at an amount of more than 1.17 billion CZK (including a component accounting for the inspection repairs to wagons). The Company's investment activities are predominantly focused on rail vehicles; these investments amounted to 87.4% of the acquired fixed assets in 2011 (including the component accounting).

#### **Investments in Freight Vehicles**

The Company acquired no freight vehicles in 2011. As of the end of December, the Company had only made improvements to its railway freight vehicles. In addition, the Company has implemented and made individual investments in improvements to Eas 52.Sk vehicles (the replacement of the wooden floors with metal floors).

#### **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, the installation of equipment for measuring diesel consumption with a testing sample of 10 locomotives and the equipping of 12 traction vehicles with GSM-R radio stations. In 2011, work on the 163 series locomotives continued; these will be converted into 363.5 series two-system locomotives. These two modernised locomotives should have been supplied in 2010, but the delivery date was delayed and they were delivered in May 2011. In 2011, a total of 4 modernised 363.5 series locomotives were delivered. The remaining 26 modernised 363.5 series locomotives will be supplied in 2012 and 2013. Part of the investment activities involving locomotives includes technical improvements to locomotives of different types and with different drives (the installation of radio equipment, the use of gel batteries, modifications made during higher level repairs, modifications to the locomotive driver's post, changes to the wheels, etc).

### Investments in Construction and Machinery

Another significant part of the Company's investment activities included activities in the areas of construction and machinery. The investments in construction and machinery were focused on modernising the machinery premises and technological equipment for the needs of the organisational units and on renovating the administrative and repair centres within these units. During 2011, 48 machinery investments and 36 construction investments were realised. A significant part of the investments was started in 2009 and 2010 and was completed in 2011.

### Other Investments

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

At the individual JOS, ČD Cargo, a.s. focused a significant part of these funds on the acquisition of software and hardware and on equipping buildings with networks and developing information systems for the Company, including strategic projects.

At the individual Rail Vehicle Repair Centres, the Company invested in the trucks used to deliver the spare parts and to realise rail vehicle repairs outside the Company's premises. In 2011, obsolete handling equipment was replaced at selected operational units.

No investments were made in 2011 with respect to the Company's strategic intentions at the logistics centres; potential further construction is anticipated in the coming years.

### Component accounting for significant repairs to railway vehicles

According to the method of component accounting for significant repairs to railway vehicles which has been in force since 1<sup>st</sup> January 2010, this fact is reflected by the standalone items in the investment list. With regard to the acquisition of fixed assets, these specifically include completed inspection repairs to railway vehicles and major and general repairs in 2011.

### STAFF POLICY AND THE SOCIAL PROGRAMME

The Company has continued to adopt measures to improve its financial situation and increase work effectiveness. As part of the measures that were adopted in the area of human resources, the optimisation of activities in relation to the necessary number of employees continued with the objective of improving the age and professional structure while maintaining an efficient rate of employment.

Our contractual cooperation with selected high schools continued; this focused on preparing graduates for future careers at ČD Cargo in order to decrease the average age of our employees.

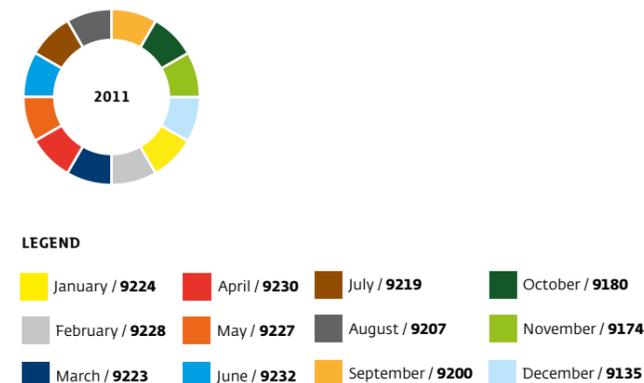
The contracts with schools include theoretical and practical preparation, cooperation within research and development programmes, use of the latest scientific and technological findings and their implementation in our operations, participation in the creation of study programmes, etc. As part of the motivation programme, successful students at the contracted high schools once again had the opportunity to receive a contribution towards their studies,

which is conditional upon joining ČD Cargo, a.s. once their studies have been completed. A total of 5 students were selected for the 2011/2012 school year. They will be able to start working at the Company either in 2012 or gradually in the following years together with other students from previous years.

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

From January to December 2011, the average registered headcount recalculated to full-time employees decreased by 89 employees, i.e. from 9,224 (January 2011) to 9,135 employees (December 2011). The physical headcount as of 31<sup>st</sup> December 2011 was 9,118.

### Average headcount recalculated to FTE in the individual months of 2011



In order to meet the objectives of the business plan for 2012, it was necessary to optimise in the Company's activities in direct connection with the optimum number of employees providing only those activities which are necessary for the Company's operations and which have to be provided due to the applicable legal regulations, contracts, agreements or membership in any bodies or institutions. This intention has to be followed by a trend whereby the necessary savings are linked to savings in the Company's staff costs.

Higher work effectiveness and decreased staff costs, with fewer social disruptions, were achieved by means of the regulation of the employment rate in 2011, which provided space for the implementation of a new business plan from the beginning of 2012.

In 2011, the average salary at ČD Cargo, a.s., i.e. the payroll costs, excluding other staff costs, amounted to 27,842 CZK. In accordance with the applicable legislation, the ČD social fund was predominantly used in 2011 for ČD employees to:

- make contributions towards cultural and sports activities;
- make contributions towards 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 representing specific professional groups of employees. The Company's collective agreement, which regulates the individual and collective relationships between the employer and the employees and the mutual relationships between the trade unions and the employer, was concluded with effect from 1st January 2011 until the end of 2011.

### THE CODE OF ETHICS

In 2011, the employees acted in line with the ČD Cargo, a.s. Code of Ethics which helps to ensure that the Company's daily activities and the conduct of all its employees are in line with the Company's principles, i.e. with a set of particular rules that are based on the Company's values and principles and that define the standard of professional conduct. This represents a set of ethical principles, norms and requirements that are binding for the employees. The code lays out the Company's ethical values, vision and mission and complements and develops the Company's work regulations.

### QUALITY MANAGEMENT – ISO

The ISO management system group concerns all the activities that are integral for or otherwise relate to the management systems and ISO 9001 quality control and ISO 14001 BOZP OHSAS 18001. Other professional divisions at the central level of the Company include the Technology, Technical and Environmental Departments for EMS and the Occupation Health and Safety Departments for work safety issues.

One of the significant tasks is the annual extension of the validity of the quality and environment certificates which were granted to the Company in previous years and cooperation with trade unions in sales issues at the central level of the Company and in the tenders where the relevant certificates are presented or specific facts relating to management systems are documented. Concurrently, the Company also ensures cooperation with all the units in the Company's organisational structure with regard to any customer audits required by some of our business partners who are also certified under the ISO standards (or OHSAS, AEO and so on). On the other hand, the Company also performs audits at its suppliers in selected cases (e.g. during the receipt of railway vehicles).

The Company proved its ability to be recertified during the annual supervisory audit (May 2011) when the functionality, setting and effectiveness of both systems (quality and the environment) were verified at the selected organisational units of the central and executive level. This was a combined audit, i.e. the processes under both systems were reviewed. In addition to the assessment of the compliance/non-compliance with obligatory conditions of ISO standards,

the Company also focused on the authority of the sales division and the mutual cooperation with the operations management (technology, planning and the provision of capacities, operating conditions, etc.). As in previous years, the external audit was realised by the Intertek, a Moody certification company. The audit resulted in the external auditor's statement on the status of the systems, an assessment from the last audit and recommendations concerning the validity of the certification for the following periods. No discrepancies were identified; several minor findings were identified in the recommendations (for both systems), including positive findings.

At the end of 2011, the Company completed the "Process Modelling and Electronic ISO Documentation" project, the output of which (the description and documentation of all the processes and activities) is used every year during the implementation of the internal and external ISO audits.

The Company gradually introduced the elements, processes and documents required by the OHSAS system into practice from approximately the second half of 2011 in accordance with the resolution of the Company's Board of Directors on the introduction of a work safety management system based on the OHSAS 18001 (HSMS) standard. This primarily includes the Work Safety Manual and the Work Safety Policy, etc. At the same time, the Company also organised "Internal Occupational Safety Auditor" and "Increased QMS and EMS Auditor Qualification" training for selected employees. The anticipated date of the entry certification under OHSAS 18001 is April/May 2012. A number of the obligatory requirements are identical to the common activities of the HR department and the Occupational Safety Department (the management of occupational safety in compliance with the applicable legislation, the Company's collective agreement or the internal standards) or directly relate to occupational safety issues, occupational safety reviews, the assessment of the occupational safety system, etc. From this perspective, the ongoing implementation of the OHSAS system is simpler up to a certain level than certain other similar systems. The following issues are subject to certification for the quality and occupational safety systems:

- business activities in railway freight transport;
- the provision of railway freight transportation services;
- the operation of railway and railway siding transport;
- the maintenance and repair of rail vehicles and their components; and
- the leasing and sub-leasing of rail vehicles.

The certification includes the following for the environmental management system:

- the maintenance and repair of rail vehicles and parts

Certified organisational units in the QMS system include almost all the sections at the Company's central level: OPT, all PJ (including PP) and the Rail Vehicle Repair Centres (including OKV). For the time being, the EMS system only includes the maintenance and repair of the Rail Vehicles Division and all Rail Vehicle Repair Centres (including OKV). The occupational safety management system (HSMS – OHSAS) includes all the Company's organisational units.

A logical follow-up step (following the initial OHSAS certification) will include the extension of the EMS certification under the ISO 14001 standard to other organisational units (anticipated for 2013 or 2014). The requirements

for specific certifications naturally result from the needs and requirements of the market, i.e. from our customers, cooperating parties, tender organisers and other business partners.



#### THE AEO CERTIFICATE

In 2011, the Company applied for the recertification of the highest level of the AEO "Simplified Customs Procedures/Safety and Security" customs quality certificate. When the Company obtained the certificate in 2009 and when it underwent ongoing inspection by bodies of the Czech Customs Administration, it initially underwent an in-depth inspection of the financial issues under certificate conditions that focused on how the Company was able to fulfil its obligations towards third parties, i.e. including the Czech Customs Administration. The recertification was successfully completed on 13<sup>th</sup> July 2011 according to the defined procedure.

## The Company and the Community

#### INTERNATIONAL ACTIVITIES AND RELATIONSHIPS

The International Activities Department within the authority of the Sales Manager was included in the Communications Division and the Office of the Chairman of the Board of Directors by means of the transformation the last year, specifically on 1<sup>st</sup> October 2011.

The three basic activities of its members include the administration of activities related to the Company's membership in international organisations, the coordination of international projects and the general representation of the Company in Brussels and Moscow.

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 Cargo, a.s. Together with its parent company, the Company jointly promotes the principle of a uniform concept, i.e. the uniform membership of the ČD group, coordination and information sharing.

Under this contract, České dráhy, a.s., is the guarantor of its membership in the International Union of Railways (UIC), the Community of European Railways (CER), the Organisation for Railway Cooperation (OSŽD), the Forum Train Europe (FTE), and the International Rail Transport Committee (CIT). In the case of organisations which have a direct relationship with 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 Clearance (BCC).

The European driver of the new IT projects is the liberalisation of EU legislation.

This primarily includes the TSI Telematics for 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 also monitored other principal international IT projects, primarily e-RailFreight for an electronic load list and the 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 2011, 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 the territories of this organisation's member states. The Alliance includes 7 partners operating in 11 countries: ČD Cargo, a.s., (the Czech Republic), CFL cargo (Luxembourg), DB Schenker Rail (Germany, the Netherlands, Denmark), Green Cargo (Sweden, Norway), Rail Cargo Austria (Austria, Hungary), SBB Cargo (Switzerland) and SNCB Logistics (Belgium). By means of the provided information (shipment tracking over its route, determining the anticipated time of arrival at the railway station and the efforts in its 90% guarantee), the Xrail system has contributed to increased customer satisfaction and, due to the weekly assessment of delays on selected routes, an increase in the operational quality and reliability of transportation. The reliability of the compliance with the Alliance's planned schedule in 2011 amounted to 84%, while Czech transport ranked first among the best companies with 90% reliability. In 2012, the Company plans to further extend the system, while the Company will increase the number of monitored routes by 200% in the first half of the year. Another area of the Xrail alliance's focus is the place reservation of transport capacity in freight trains where Xrail has the objective of creating a "central section" to mediate cooperation between the partners' reservation systems.

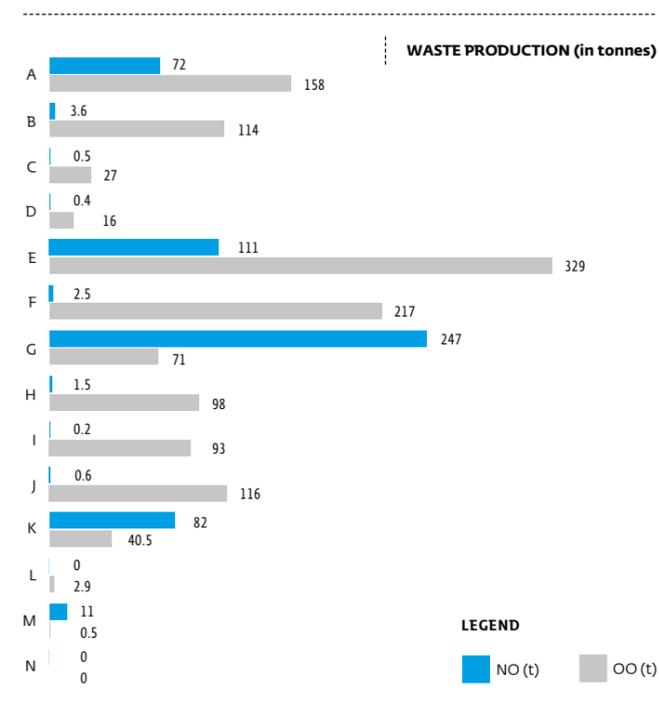
#### ECOLOGY AND ENVIRONMENTAL PROTECTION

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 which was concluded on 27<sup>th</sup> May 2008. With regard to this contractual relationship, the Company has created its own hierarchy which focuses on the Rail Vehicle Repair Centres and is directly linked to ecology. Such processes include waste reduction, building insulation, protecting the railway bedding against pollution from oil drops from shed traction vehicles, preventing and decreasing the risk of environmental disasters and damage, etc. Within the Company's Operations Unit, this is secured by environmental contact people who cooperate with the ecologists from the Rail Vehicle Repair Centres; together they are managed by the chief ecologist from the Rail Vehicle Maintenance and Repair Department (hereafter simply referred to as Department 12) of the Company's General Directorate. The Company holds meetings with SŽDC, s.o. and its standalone Ecology Department.

By means of the adoption of the environmental policy, all the employees are bound to comply with the environmental management aimed at describing, assessing and improving the management system at Department 12 and the Rail Vehicle Repair Centres with regard to the negative impact of the activities and technology (e.g. in compliance with the principles of pollution prevention, accident readiness for, the purchase of environmentally

friendly products, the environment and primarily the efforts to minimise waste production (see the chart).

## Waste production at ČD Cargo, a.s. in 2011 by waste category



#### LEGEND

<b>(A)</b> OKV UNL	<b>(F)</b> ONV OVA	<b>(K)</b> OKV CBE
<b>(B)</b> OKV MO	<b>(G)</b> OKV Břeclav	<b>(L)</b> OKV Jihlava
<b>(C)</b> OKV Nbk	<b>(H)</b> OKV Brno	<b>(M)</b> PrP Strakonice
<b>(D)</b> OKV Cheb	<b>(I)</b> OKV Píseň	<b>(N)</b> PrP Horní Dvořiště
<b>(E)</b> OHV OVA	<b>(J)</b> OKV Třinec	

As the EMS system focuses on providing the best conditions for environmental protection, the Company realised investments in 2011 aimed at improving certain environmental activities, e.g. the renovation of the small oil plant

at SOKV UNL, the renovation of the sewer system (OKV Most), the construction of a new biological sewerage treatment plant at OKV Most, the renovation of the hall, including sewerage viewing, at OHV Ostrava, the insulation of the building for the operational treatment of locomotives at SOKV České Budějovice, the cleaning of the sewer and entry into the sewerage system at the Strakonice operations workplace, etc.

During the reporting period, the Company organised regular internal audits focusing on compliance with the determined criteria and obligations set out by the valid environmental protection legislation. The aim was to assess the EMS system and the readiness of specific workplaces for an EMS external audit. The results were discussed at management meetings and assessed by senior management in April 2011.

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

In May 2011, an external audit was performed at Department 12 and all Rail Vehicle Repair Centres (including OKV) (performed by MOODY International) and the Company was once again granted certification according to ČSN EN ISO 14001:2005. The external audit identified no discrepancies and merely made several partial recommendations which will be implemented as part of the preparation of the Investment Plans for 2012.

The fact that the adherence to the introduced EMS at Department 12 and all the Rail Vehicle Repair Centres (including OKV) is a good decision is born out by the fact that the Company did not face any financial sanctions in 2011, despite some extraordinary events (railway accidents) which affected the environment and inspections by state authorities, specifically the Czech Environmental Inspection Agency.

#### Fire Protection

In 2011, the fire protection processes were based on a Contract for the formation of a common fire protection unit with ČD, a.s. and SŽDC, s.o. The individual interventions are subject to charges under the conditions of the contract and a settlement is made with the SŽDC fire prevention team following a review by the Company. Significant savings were made for fire protection interventions due to this system.

Under the Organisational Rules of ČD Cargo, a.s., the Maintenance and Repair of Railway Vehicles (Department 12) continues to be the guarantor of fire prevention. The documentation is gradually being updated and potential inspections made by Czech firefighters did not identify any defects.

In 2011, 14 fires were recorded with a total damage amounting to 1,512 million CZK. These all involved rail vehicle fires arising from operating risks. In three cases, the fires were set by vandals.

#### CORPORATE SOCIAL RESPONSIBILITY

The Company is aware of its social responsibility. For this reason, it provides the Diakonie Broumov citizens' association with rail vehicles under advantageous conditions and provides significant discounts for the transport of humanitarian aid. It is therefore directly involved in assisting people in need.

## Companies in which ČD Cargo has a business share

### TERMINAL BRNO, A.S.

Date of entry in the Commercial Register: 25<sup>th</sup> July 2008  
Registered capital: 55,350,000 CZK  
Business share: 66.94% (37.05 million CZK)  
Principal commercial activities: goods storage and cargo handling (including the storage of shipments related to combined transport; containers, exchangeable superstructures and road trailers), technical activities related to transportation.

### ČD LOGISTICS, A.S.

Date of entry in the Commercial Register: 16<sup>th</sup> June 2007  
Registered capital: 10,000,000 CZK  
Business share: 56% (5.6 million CZK)  
Principal commercial activities: storage and material handling.

### ČD-DUSS TERMINÁL, A.S.

Date of entry in the Commercial Register: 1<sup>st</sup> March 2007  
Registered capital: 4,000,000 CZK  
Business share: 51% (2.04 million CZK)  
Principal commercial activities: the operation of a container terminal, including additional services (ensuring the collection and distribution of road shipments), and the repair and storage of storage units.

### CD GENERALVERTRETUNG GMBH

Date of entry in the Commercial Register: Germany, 11<sup>th</sup> October 2004  
Registered capital: 50,000 EUR  
Business share: 100%  
Principal commercial activities: the mediation of services in freight transport on behalf of ČD Cargo, a.s., general representation and comprehensive information services for the clients of ČD Cargo, a.s.

### KOLEJE CZESKIE SP. Z O.O.

Date of entry in the Commercial Register: Poland, 18<sup>th</sup> December 2006  
Registered capital: 100,000 PLN  
Business share: 100%  
Principal commercial activities: the mediation of services in freight transport on behalf of ČD Cargo, a.s., general representation and comprehensive information services for clients in the territory of Poland, Lithuania, Latvia and Estonia.

### CD - GENERALVERTRETUNG WIEN GMBH

Date of entry in the Commercial Register: Austria, 30<sup>th</sup> March 2007  
Registered capital: 45,000 EUR  
Business share: 100%  
Principal commercial activities: mediation of services in freight transport, business representation in the territory of Austria, Italy, Hungary (selected areas), Switzerland and the former Yugoslavia.

### GENERÁLNE ZASTÚPENIE ČD CARGO, S.R.O.

Date of entry in the Commercial Register: Slovakia, 24<sup>th</sup> September 2008  
Registered capital: 6,639 EUR  
Business share: 100%  
Principal commercial activities: business representation and mediation activities in the area of transportation and related services.

### МООО «ЧД ТРАНС» (TRANSCRIPTION IN ROMAN LETTERS: ČD TRANS S.R.O.)

Date of entry in the Commercial Register: Belarus, 21<sup>st</sup> April 2008  
Registered capital: 20,000 USD  
Business share: 51% (10.2 thousand USD)  
Principal commercial activities: passenger and freight transportation, including the provision of services at the Brest terminal.

### RAILLEX, A.S.

Date of entry in the Commercial Register: 17<sup>th</sup> June 2006  
Registered capital: 2,000,000 CZK  
Business share: 50% (1 million CZK)  
Principal commercial activities: cargo handling and technical transportation services.

### BOHEMIAKOMBI, SPOL. S R.O.

Date of entry in the Commercial Register: 17<sup>th</sup> April 1992  
Registered capital: 6,000,000 CZK  
Business share: 30% (1.8 million CZK)  
Principal commercial activities: the mediation of services in the field of transportation with the exception of transportation realised by the company's own means of transport.

### OSTRAVSKÁ DOPRAVNÍ SPOLEČNOST, A.S.

Date of entry in the Commercial Register: 30<sup>th</sup> May 1995  
Registered capital: 15,000,000 CZK  
Business share: 20% (3 million CZK)  
Principal commercial activities: railway transport operations and locomotive leasing.

### XRAIL S.A.

Date of entry in the Commercial Register: Belgium, 24<sup>th</sup> June 2010  
Registered capital: 61,500 EUR  
Business share: 1.3% (7,995 EUR)  
Principal commercial activities: support during the management of the international transportation of wagon shipments among railway transport operators.

### BUREAU CENTRAL DE CLEARING SOCIÉTÉ COOPÉRATIVE À RESPONSABILITÉ LIMITÉE (BCC S.C.R.L.)

Date of entry in the Commercial Register: Belgium, 17<sup>th</sup> December 1996  
Registered capital (fixed part): 18,750 EUR  
Business share: 3.3% (3,750 EUR)  
Principal commercial activities: the non-monetary settlement of mutual payments in railway transport.

## 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. To finance its investment plans, the Company uses internal and external resources. The Company's external resources predominantly include financing through leases and postponed payments (supplier loans).

The prepayments for realising future investments consist exclusively of prepayments for modernising the 163 series locomotives to the 363 series and modernising the 230 series locomotives.

### Balance sheet

In the period from 31<sup>st</sup> December 2010 to 31<sup>st</sup> December 2011, the value of the Company's total assets and liabilities increased by 11.5 million CZK.

The value of the fixed assets decreased by 88.3 million CZK and amounted to 12,956.9 million CZK, i.e. 82.7% of the total assets. The current assets, which include inventory, receivables and current financial assets, increased by 88.1 million CZK to 2,359.9 million CZK, i.e. 15.1% of the total assets.

Deferred expenses and accrued income increased by 11.6 million CZK to 347.2 million CZK and account for 2.2% of the total assets. The value of the Company's equity in the reporting period increased by 42.2 million CZK to 8,008.9 million CZK, i.e. 51.1% of its total liabilities.

External funding decreased by 24.5 million CZK to 7,594.3 million CZK during the reporting period, which represents 48.5% of the total liabilities. Accrued expenses and deferred income decreased by 6.2 million CZK to 60.7 million CZK and represent 0.4% of the total liabilities.

### Investment activities of ČD Cargo, a.s.

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

## Profit and loss account

The Company's profit before tax for 2011 at an amount of 11 million CZK was achieved with an aggregate income of 15,041.8 million CZK and total costs (excluding income tax) of 15,030.8 million CZK, including accounting amortisation and depreciation charges of 1,218.1 million CZK. The EBITDA (earnings before interest, taxes, depreciation and amortisation) amounted to 1,286.9 million CZK.

## ČD Cargo, a.s. financing

The Company's investment and operational activities are financed via a combination of the Company's own internal cash flow and external funding which consists of short-term bank loans, supplier loans, leasing, a bill-of-exchange program and bonds.

### BANK OPERATING LOANS

When financing its operations, the Company has overdraft and revolving Credits of up to 1.8 billion CZK provided by five banks. The increased competition between banks has enabled the Company to obtain lower interest rates.

### BILL OF EXCHANGE PROGRAM

The bill-of-exchange programme has been approved at the amount of 1.5 billion CZK and the Company's Supervisory Board must be informed in advance of any intention to draw down more than 1 billion CZK. During 2011, the strategy of the gradual replacement of short-term funding sources with long-term ones was launched using the bill-of-exchange program. The bill-of-exchange program was not drawn down as of 31<sup>st</sup> December 2011; however, the bill-of-exchange facility is kept as a reserve for short-term financing independent of bank sources.

### BONDS

This funding source has significantly increased the financial stability of the Company's cash flow due to its long-term nature. The bond issue was realized in connection with the introduction of a strategy of the gradual replacement of short-term funding sources with long-term ones. The bond program as been approved at a total amount of 6 billion CZK and the issue is not public. As of 31<sup>st</sup> December 2011, bonds at an amount of 2 billion CZK had been issued.

## ČD Cargo, a.s. risk management

ČD Cargo, a.s., monitors and assesses all material business risks, especially strategic, business, financial and operating risks on an ongoing and long-term basis.

2011 was a year of significant milestones for the implementation of Risk Management (RM) at ČD Cargo, a.s., and in the ČD Group. The Company approved the key internal standards regulating the RM process (the Risk Management Policy and the Risk Management Manual), the position of the Corporate Risk Manager was filled, and the Risk Management Committee (RMC) began its operations. The Board of Directors approved a risk monitoring system and the classification of significant and regular risks, approved the Risk Catalogue and Map together with the RMC and subsequently approved the Company's risk appetite.

The risk management is regularly coordinated with the parent company and other members of the ČD Group. The Corporate Risk Manager at ČD Cargo, a.s., attends the meetings of the Company's Risk Management Committee on a regular basis; the risk catalogues have been compared and the terminology and names of equal or similar risks have been unified. Risk management is part of the ČD Group Synergies project and it has also been included in the Support Activity Centralisation project in the ČD Group.

### BUSINESS RISKS

Given the competition in the freight railway transport market, business risks are the most significant risks for the Company's business results. The structure of the business risk group has been set up in line with the structure of the business division and the structure of the Business Plan, i.e. by commodity groups. In 2011, the business risk development was positive with regard to the planned sales volumes; this risk group did not have a negative impact on the Company's performance.

The Company's business operations were subject to the situation in the freight and transport market. The Company's pricing policy has been adjusted to this situation. In business negotiations, multiple year contracts with guaranteed technological volumes were preferred.

### FINANCIAL RISK MANAGEMENT GOALS AND METHODS AT ČD CARGO, A.S.

The goals and methods of the Company's risk management are based on the Financial Risk Management Strategy at ČD Cargo, a.s. This document was approved by the Company's Board of Directors in 2011 and it contains the goals for the individual risks and the permitted derivative operations used to hedge against the risks. The Company's goal is to hedge so that no open position is higher than the approved individual risk limit as stipulated in the Financial Risk Management Strategy.

### LIQUIDITY RISK

The Company's liquidity risk is managed so as to ensure that the volume of funding necessary to settle its financial liabilities is sufficient. The Company's liquidity development and cash flow are assessed on a day-to-day basis. Decisions are made on the settlement of liabilities, the use of overdraft loan facilities, the bill-of-exchange program or the issuance of bonds, etc on the basis of these analyses. In order to further stabilise the cash flow, a strategy of gradually replacing the short-term financing sources with long-term ones using the bond program was implemented in 2011.

The funding structure has created the desired framework for ČD Cargo's financial stability with the possible flexible use of individual forms.

### CREDIT RISK

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

In order to provide additional collateral to support risky receivables, standard tools are used in various combinations. The Company actively pursues a netting policy with special attention paid to receivables more than 60 days past maturity in order to improve the liquidity level and for the sake of decreasing the amount of receivables and payables.

### CURRENCY RISK

Given that a significant part of the Company's income is realised in Euros, the Company pays constant and systematic attention to the currency risk. In order to mitigate any negative impact on the Company's financial performance, a wide range of tools are used a short-term and a medium-term basis based on their underlying characteristics.

The goal of currency risk management is to hedge so that no open position is higher than the Company's approved risk appetite. In order to achieve the required status, the methods and tools needed to manage currency risk arising from the Financial Risk Management Strategy are approved.

During 2011, the Company eliminated the risk of a possible strengthening of the currency (the risk that the calculated or incurred costs in CZK would not be covered) by the mid-term hedging of the exchange rate of the Czech crown against the Euro realised in 2008. The exchange rate for the Czech crown against the Euro was hedged for the subsequent period towards the end of the year. With regard to the expected collection of receivables in Euros for delivered performance and the internal price calculation, the hedging of the CZK/EUR exchange rate will be agreed continuously by the Company in order to eliminate the risk of the possible strengthening of the crown, i.e. 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 – THE PRICE OF RAILWAY DIESEL

The railway diesel used by the Company represents a significant cost component. In 2011, railway diesel price volatility was eliminated by the mid-term hedging of this commodity price.

The commodity risk management's goal is to hedge so that no open position is higher than the Company's approved risk appetite. In order to achieve the required status, the commodity risk management methods and tools arising from the Financial Risk Management Strategy are approved.

### INTEREST RATE RISK

Interest rate risks may arise from changes in floating interest rates.

The interest rate risk management's goal is to hedge so that no open position is 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. In order to achieve the required status, the interest rate risk management methods and tools arising from the Financial Risk Management Strategy are approved.

At present, some of the original non-hedged leasing transactions are hedged using the interest rate swap (IRS) and collar hedging instruments (this includes some previously-concluded leasing transactions using 1M PRIBOR or 12M PRIBOR).

By means of these hedging instruments, the fixed values of interest-rate swaps are achieved in order 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.

The debt issue has also been hedged. The hedging includes IRS.

The shift from short-term to long-term financing (using bonds with a fixed interest rate) has further decreased the risk resulting from any shifts in the floating rates of revolving and overdraft loans.

### OTHER OPERATIONAL RISKS

The Company hedges a range of operational risks using insurance coverage. The major risks identified include the transport 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 freight railway cars.



## 10 Anticipated Developments, Objectives and Intended Activities

ČD Cargo, a.s., generated a profit in 2011 and the Company's goal is to continue this development in the coming years. The Company has prepared a very ambitious plan for the future period which is based on positive financial results. It is the Company's task to maintain its position as the principal player in the railway freight transport market in the Czech Republic.

At the same time, the Company has significant ambitions in Europe. When defining the Company's long-term vision, the Company's resources and the anticipated development of the railway freight transport market throughout Europe should be taken into account. The transport market in the Czech Republic will be significantly affected by the entry of new business entities in the medium term, including existing cooperating foreign railway carriers whose market share will increase to the Company's detriment. In order to compensate for any losses in the local market, the Company will have to search for opportunities in foreign markets. This trend will have an impact on the use of the current operating capacities and it will require the restriction of the capacities as well as a transformation which will allow us to respond effectively to these opportunities. Investments will be required in the modernisation of the rolling stock and in the acquisition of interoperable traction vehicles which will soon become indispensable for the Company's success in the transport market.

The acquisition of interoperable locomotives will be an important step, predominantly with regard to combined transport, the increase of which is expected. This not only includes the development of maritime transportation but also the development of continental combined transport, including a larger share of the transit transport between Asia/Russia and Europe. The transport of road trailers is also considered to have good prospects. For this reason we are preparing the introduction of new lines in cooperation with other entities which may ease the transport during the reconstruction of the D1 motorway. Within this context, we are also considering the introduction of Ro-La lines. This is, however, hindered by the car and infrastructure capacity limits. The strategic cooperation with road transporters should result in us obtaining business control over shipments which have not been feasible using railways to date.

As part of the increased efficiency of the offered services, the Company will focus on the optimisation of the internal processes aimed at increasing the Company's productivity and competitiveness in the transport market. These steps are closely related to further developing the Company's share in the segment of individual shipments, along with a number of other options, by enhancing the cooperation with the other transporters in the Xrail alliance which was established for this very purpose. A development plan has been prepared for 2012 which anticipates an increase in the

number of covered routes by nearly 200%. Another separate issue resolved by Xrail is the reservation of transfer capacity in freight trains. The Company is developing an internal system which should be launched by the end of 2014 as part of the new PROBIS IT system. Xrail's goal is to establish a centre to mediate cooperation with partners.

The Company will approach selected transactions using project management. The Company will focus on a customer-driven approach and significant support for sales, including the implementation of a new structure in the Sales Department. We must fully meet our customers' specific technological requirements (increasing competitiveness) while maintaining the maximum transport profitability for the Company. The utilisation of the warehouse in Lovosice remains a challenge.

Our vision: Building a strong multinational transportation company

## 11 Registered Capital

### The amount of the issued registered capital

As of the balance sheet closing date of 31<sup>st</sup> December 2011, the registered capital amounted to 8,494,000 thousand CZK and was paid in full.

### Ownership structure

#### THE SOLE SHAREHOLDER:

České dráhy, a.s.  
Prague 1, nábřeží L. Svobody 1222, 110 15  
Company Registration Number: 709 94 226

## 12 Report of the Supervisory Board, the Board of Trustees and the Audit Committee

### Supervisory Board's report

During 2011, the Supervisory Board of ČD Cargo, a.s. held eight meetings at which it always had a quorum. The Company's Supervisory Board exercised its powers and fulfilled all its tasks in compliance with the legal regulations, the Company's Articles of Association, its rules of procedure and the applicable regulations. The Company's Supervisory Board systematically monitored the performance of the functions of the Board of Directors while carrying out its business activities. The Board of Directors provided the Supervisory Board with all the necessary information and supporting documentation for its monitoring activities. The Chairman of the Board of Directors, together with the other members of the Board of Directors, participated at all the meetings and continuously informed the Supervisory Board of the Company's business activities and the results of its operations.

The Supervisory Board paid undivided attention to the discussion and/or review of significant business documents, in particular the financial statements of ČD Cargo, a.s. for the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010 with the auditor's statement and the report from the Audit Committee of ČD Cargo, a.s., the financial statements and the auditor's statement, the individual financial statements of ČD Cargo, a.s. under IFRS as adopted by the EU for the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010 with the Auditor's Report, the proposal for the allocation of the ČD Cargo, a.s. profit for the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010, the Board of Directors report on the commercial activities of ČD Cargo, a.s., and the balance of its assets for the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010 and the report on associated entities for the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010.

The Supervisory Board also discussed and evaluated the request of the Company's Board of Directors for consent to undertake specified legal acts. The Supervisory Board always granted its consent after receiving recommendations from the Company's Board of Trustees.

At its thirty-fourth meeting, the Supervisory Board discussed the Board of Directors report on the commercial activities of ČD Cargo, a.s. and the balance of its assets for the year ending 31<sup>st</sup> December 2011 and the report on the transaction with associated entities for the year ending 31<sup>st</sup> December 2011 with the auditor's report and reviewed the following documents: the financial statements of ČD Cargo, a.s. for the year ending 31<sup>st</sup> Decem-

ber 2011, including the independent auditor's report and the report from the Audit Committee's of ČD Cargo, a.s. on the financial statements with the auditor's statement and the proposal for the settlement of the income of ČD Cargo, a.s. for the year ending 31<sup>st</sup> December 2011. The Supervisory Board recommended that the sole shareholder, České dráhy, a.s., acting in the capacity of the general meeting of ČD Cargo, a.s. should approve all of the above-mentioned documents.

In Prague on 16<sup>th</sup> April 2012

**Petr Žaluda**  
Chairman of the Supervisory Board



## Report of the Board of Trustees

The Board of Trustees at ČD Cargo a.s. acted as the Company's advisory and initiative body in the year ending 31<sup>st</sup> December 2011. In accordance with the Articles of Association of ČD Cargo, a.s., the Board of Trustees is a company body which consists of three members elected by the sole shareholder, České dráhy, a.s., acting in the capacity of the ČD Cargo, a.s. general meeting at the suggestion of the Ministry of Transport of the Czech Republic.

During the reporting period, the Board of Trustees at ČD Cargo, a.s. held five regular meetings at which it provided the Company's bodies with expert statements, suggestions and recommendations and it also reached a per rollam decision outside the meeting in January 2011. In addition, the Board of trustees also discussed and expressed its opinion on 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 Board of Trustees at ČD Cargo, a.s. declares that it has been provided with all the conditions necessary for the realisation of its activities. The Chairman of the Board of Directors, together with the other members of the Board of Directors, regularly attended all the meetings of the Board of Trustees and provided it with the relevant information and supporting documents.

In Prague on 5<sup>th</sup> April 2012

**Vít Veselý**  
Chairman of the Board of Trustees



## Audit Committee's report

The Company's Audit Committee performed its duties and completed all its tasks in accordance with legal regulations, the Company's Articles of Association, and its rules of procedure. It systematically monitored the preparation of the Company's financial statements, the auditing thereof and the related documents for the periods from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010, 1<sup>st</sup> January 2011 to 30<sup>th</sup> September 2011 and 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011.

The Company's Audit Committee was provided with timely and correct information and documents related to the individual steps pertaining to the preparation of the Company's financial statements under the Czech Accounting standards and IFRS as adopted by the EU and the report on the transactions with associated entities for the periods from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010 and 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011 and to the preparation of the Annual Report for the year ending 31<sup>st</sup> December 2010 by the Company's representatives.

The Audit Committee also assessed the impartiality and independence of the Company's auditor, Deloitte Audit s.r.o., discussed and communicated about selected information and issued statements and communiqués in accordance with the legislation. Acting in its inspection capacity, the Audit Committee did not note any errors or breaches of the legal regulations or the Company's Articles of Association by either the Company or the auditor during the preparation of the financial statements and the mandatory audit thereof and the preparation of the report on transactions with associated entities and related activities.

With regard to the aforementioned facts and after discussing the auditor's draft report on the financial statements and the contents of the auditor's draft report on the transactions with associated entities, the Audit Committee has recommended that the Company's bodies should discuss the financial statements along with the auditor's report and the report on the transactions with associated entities, as well as the auditor's report for the periods from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010 and from 1<sup>st</sup> January 2011 to 31<sup>st</sup> January 2011 and that the sole shareholder should approve the documents while acting in the capacity of the general meeting. The committee discussed the auditor's statement on the Company's Annual Report for the year ending 31<sup>st</sup> December 2010. It also recommended that the Company's bodies should discuss the individual financial statements of ČD Cargo, a.s. under IFRS as adopted by the EU for the period from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2010 and that the sole shareholder should approve the documents while acting in the capacity of the general meeting.

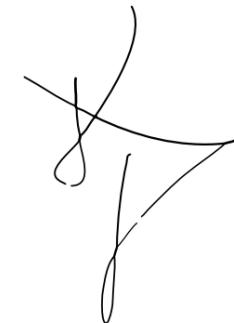
In addition, the Audit Committee has monitored the integrity of the financial information provided by the Company and the internal control systems

and the risk management in the Company. It has discussed the report on the internal inspection and internal audit in the Company. Towards the end of 2011, the Internal Audit Division began fulfilling some of its tasks directly according to the requirements of the Audit Committee.

With regard to the aforementioned facts, the Company's Audit Committee notes that it has complied with its obligations ensuing from the legal regulations, in particular the Auditors Act 93/2009 Coll. dated 26<sup>th</sup> March 2009 and the Company's Articles of Association, as amended, and that the conditions have been sufficient for it to carry out its activities.

In Prague on 20<sup>th</sup> March 2012

**Oldřich Vojř**  
Chairman of the Audit Committee





## 13 Independent Auditor's Report

### To the Shareholders of ČD Cargo, a.s.

Registered office:

Jankovcova 1569/2c, Prague 7 – Holešovice, 170 00

Company Registration Number: 281 96 678

#### REPORT ON THE FINANCIAL STATEMENTS

Based upon our audit, we have hereby issued the following audit report dated 21<sup>st</sup> March 2012 concerning the financial statements which are included in Chapter 14 of this annual report:

"We have audited the accompanying financial statements of ČD Cargo, a.s. which consist of the balance sheet as of 31<sup>st</sup> December 2011, the profit and loss account, the statement on the changes in equity and the cash flow statement for the year ending 31<sup>st</sup> December 2011 and a summary of the significant accounting policies and any other explanatory notes.

#### Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and faithful presentation of these financial statements in accordance with the accounting regulations applicable in the Czech Republic and for any such internal controls as management deems necessary to enable the preparation of financial statements which are free of material inaccuracy, whether due to fraud or error.

#### Auditor's Responsibility

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

An audit involves the performance of procedures in order to obtain audit evidence about the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material inaccuracy in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls which are relevant to the entity's preparation and faithful presentation of the financial statements in order to design audit procedures which are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes an evaluation of the appropriateness of the used accounting policies and the reasonableness of the accounting estimates made by the management, as well as an evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate in order to provide a basis for our auditor's statement.

#### Opinion

In our opinion, the financial statements give a true and faithful view of the financial position of ČD Cargo, a.s. as of 31<sup>st</sup> December 2011 and of its financial performance and its cash flow for the year then ended in accordance with the accounting regulations applicable in the Czech Republic.

#### EMPHASIS OF THE MATTERS

We draw your attention to Note 4.10. in the financial statement. As of 31<sup>st</sup> December 2011, the Company has reported reserves of 767 million CZK which substantially relate to legal disputes arising from the Company's business activities. The Company has recognised the reserves based on its subjective estimate of the potential additional costs in these areas. The outcome of these disputes and negotiations is unknown as of the date of the audit report. Our opinion is not changed with regard to this matter."

#### THE STATEMENT ON THE REPORT ON THE TRANSACTIONS WITH ASSOCIATED ENTITIES

Based upon our review, we have issued the following statement dated 21<sup>st</sup> March 2012 concerning the report on the transactions with associated entities which has been included in this annual report in Chapter 16:

"We have reviewed the factual accuracy of the information included in the report on the transactions with associated entities of ČD Cargo, a.s. for the year ending 31<sup>st</sup> December 2011. This report on the transactions with associated entities is the responsibility of the Company's Statutory Body. It is our responsibility to express an opinion of the report on the transactions with associated entities based on our review.

We have 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 in order to obtain moderate assurance as to whether the report on the transactions with associated entities is free of factual inaccuracies. The review is limited primarily to inquiries of the Company's personnel and analytical procedures and examinations of the factual accuracy of information and it thus provides

less assurance than an audit. We have not performed an audit of the report on the transactions with associated entities and, accordingly, we have not expressed an auditor's opinion on it. report and, accordingly, we do not express an audit opinion.

#### REPORT ON THE ANNUAL REPORT

We have also audited the Company's Annual Report as of 31<sup>st</sup> December 2011 for consistency with the financial statements referred to above. This Annual Report is the responsibility of the Company's Statutory Body. It is our responsibility to express an opinion on the consistency of the annual report and the financial statements based on our audit.

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

In our opinion, the information included in the Company's Annual Report is consistent with the financial statements referred to above in all material respects.

In Prague on 25<sup>th</sup> May 2012

The auditing company:  
**Deloitte Audit s.r.o.**  
certificate no. 79



The statutory auditor:  
**Václav Loubek**  
certificate no. 2037



## 14 Financial statements of ČD Cargo, a.s.

### Financial statements of ČD Cargo, a.s. for the period 1.1.2011–31.12.2011

Trading name: ČD Cargo, a.s.  
Registered Office: Jankovcova 1569/2c, Prague 7, Holešovice 170 00  
Legal Status: a joint stock company  
Company Registration Number: 281 96 678

#### THE CONTENTS OF THE FINANCIAL STATEMENTS:

- the balance sheet
- the profit and loss statement
- the statement on any changes in equity
- the cash flow statement
- the notes for the financial statements

These financial statements were prepared on 21<sup>st</sup> March 2012.

#### THE REPORTING ENTITY'S STATUTORY BODY:

**Gustav Slamečka**  
Chairman of the Board of Directors



The same numbering applies in the "financial statements of CD Cargo, a.s." Chapter as in the separately issued and approved the document. The numbering of the other chapters in the CD Cargo, a.s. Annual report therefore does not follow as for 2011.

## ■ Balance sheet – in full

AS OF 31. 12. 2011 / (IN THOUSANDS OF CZK)		31. 12. 2011		31. 12. 2010	
	GROSS	ADJUSTMENT	NET	NET	NET
<b>TOTAL ASSETS</b>	<b>31 319 808</b>	<b>15 655 843</b>	<b>15 663 965</b>	<b>15 652 478</b>	<b>15 652 478</b>
<b>B. Fixed assets</b>	<b>28 533 121</b>	<b>15 576 251</b>	<b>12 956 870</b>	<b>13 045 166</b>	<b>13 045 166</b>
<b>B.I. Intangible fixed assets</b>	<b>551 132</b>	<b>304 498</b>	<b>246 634</b>	<b>247 251</b>	<b>247 251</b>
B.I.1. Start-up costs	28 492	21 369	7 123	12 821	12 821
B.I.3. Software	346 165	211 333	134 832	124 328	124 328
B.I.4. Valuable rights	134 481	71 796	62 685	68 202	68 202
B.I.7. Intangible fixed assets under construction	41 994		41 994	41 900	41 900
<b>B.II. Tangible fixed assets</b>	<b>27 820 393</b>	<b>15 271 753</b>	<b>12 548 640</b>	<b>12 662 707</b>	<b>12 662 707</b>
B.II.1. Land	81 240		81 240	81 240	81 240
B.II.2. Structures	1 236 291	584 375	651 916	599 506	599 506
B.II.3. Individual chattels and sets of chattels	20 542 774	13 156 127	7 386 647	7 189 350	7 189 350
B.II.6. Other tangible fixed assets	48		48	48	48
B.II.7. Tangible fixed assets under construction	109 229		109 229	95 182	95 182
B.II.8. Prepayments for tangible fixed assets	239 400	3 700	235 700	239 427	239 427
B.II.9. Valuation difference on acquired assets	5 611 411	1 527 551	4 083 860	4 457 954	4 457 954
<b>B.III. Non-current financial assets</b>	<b>161 596</b>		<b>161 596</b>	<b>135 208</b>	<b>135 208</b>
B.III.1. Equity investments – subsidiary (controlled entity)	102 344		102 344	85 264	85 264
B.III.2. Equity investments in associates	43 202		43 202	31 543	31 543
B.III.4. Loans and borrowings – controlled or controlling entity	12 661		12 661	18 064	18 064
B.III.5. Other non-current financial assets	3 389		3 389	337	337
<b>C. Current assets</b>	<b>2 439 525</b>	<b>79 592</b>	<b>2 359 933</b>	<b>2 271 806</b>	<b>2 271 806</b>
<b>C.I. Inventories</b>	<b>127 729</b>		<b>127 729</b>	<b>118 981</b>	<b>118 981</b>
C.I.1. Material	127 729		127 729	118 981	118 981
<b>C.II. Long-term receivables</b>	<b>9 695</b>		<b>9 695</b>	<b>10 724</b>	<b>10 724</b>
C.II.3. Receivables – substantial influence	6 578		6 578	10 098	10 098
C.II.5. Long-term prepayments made	141		141	626	626
C.II.7. Other receivables	2 976		2 976		
<b>C.III. Short-term receivables</b>	<b>2 209 576</b>	<b>79 592</b>	<b>2 129 984</b>	<b>1 905 607</b>	<b>1 905 607</b>
C.III.1. Trade receivables	1 684 353	79 592	1 604 761	1 394 081	1 394 081
C.III.3. Receivables – substantial influence	8 602		8 602	13 087	13 087
C.III.6. State – tax receivables	139 366		139 366	69 932	69 932
C.III.7. Short-term prepayments made	98 914		98 914	60 116	60 116
C.III.8. Estimated receivables	264 378		264 378	299 894	299 894
C.III.9. Other receivables	13 963		13 963	68 497	68 497
<b>C.IV. Current financial assets</b>	<b>92 525</b>		<b>92 525</b>	<b>236 494</b>	<b>236 494</b>
C.IV.1. Cash on hand	2 164		2 164	2 376	2 376
C.IV.2. Cash at bank	90 361		90 361	234 118	234 118
<b>D. I. Other assets</b>	<b>347 162</b>		<b>347 162</b>	<b>335 506</b>	<b>335 506</b>
D.I.1. Deferred expenses	341 088		341 088	333 444	333 444
D.I.3. Accrued income	6 074		6 074	2 062	2 062

AS OF 31. 12. 2011 / (IN THOUSANDS OF CZK)		31. 12. 2011		31. 12. 2010	
<b>TOTAL LIABILITIES &amp; EQUITY</b>		<b>15 663 965</b>	<b>15 652 478</b>	<b>15 663 965</b>	<b>15 652 478</b>
<b>A. Equity</b>		<b>8 008 958</b>	<b>7 966 756</b>	<b>8 008 958</b>	<b>7 966 756</b>
<b>A.I. Registered capital</b>		<b>8 494 000</b>	<b>8 494 000</b>	<b>8 494 000</b>	<b>8 494 000</b>
A.I.1. Registered capital		8 494 000	8 494 000	8 494 000	8 494 000
<b>A.II. Capital funds</b>		<b>166 175</b>	<b>26 142</b>	<b>166 175</b>	<b>26 142</b>
A.II.1. Share premium		138 540	138 540	138 540	138 540
A.II.3. Gains or losses from the revaluation of assets and liabilities		27 635	-112 398	27 635	-112 398
<b>A.III. Statutory funds</b>		<b>178 715</b>	<b>204 110</b>	<b>178 715</b>	<b>204 110</b>
A.III.1. Statutory reserve fund/Indivisible fund		60 653	60 653	60 653	60 653
A.III.2. Statutory and other funds		118 062	143 457	118 062	143 457
<b>A.IV. Retained earnings</b>		<b>-757 496</b>	<b>-330 383</b>	<b>-757 496</b>	<b>-330 383</b>
A.IV.1. Accumulated profits brought forward		97 331	97 331	97 331	97 331
A.IV.2. Accumulated losses brought forward		-854 827	-427 714	-854 827	-427 714
<b>A.V. Profit or loss for the current period (+ -)</b>		<b>-72 436</b>	<b>-427 113</b>	<b>-72 436</b>	<b>-427 113</b>
<b>B. Liabilities</b>		<b>7 594 274</b>	<b>7 618 767</b>	<b>7 594 274</b>	<b>7 618 767</b>
<b>B.I. Reserves</b>		<b>767 882</b>	<b>293 945</b>	<b>767 882</b>	<b>293 945</b>
B.I.4. Other reserves		767 882	293 945	767 882	293 945
<b>B.II. Long-term liabilities</b>		<b>3 106 369</b>	<b>1 603 952</b>	<b>3 106 369</b>	<b>1 603 952</b>
B.II.5. Long-term prepayments received		41 915	89 957	41 915	89 957
B.II.6. Bonds issued		2 000 000		2 000 000	
B.II.9. Other payables		541 857	1 092 116	541 857	1 092 116
B.II.10. Deferred tax liability		522 597	421 879	522 597	421 879
<b>B.III. Short-term liabilities</b>		<b>3 370 314</b>	<b>3 495 496</b>	<b>3 370 314</b>	<b>3 495 496</b>
B.III.1. Trade payables		1 837 632	2 532 439	1 837 632	2 532 439
B.III.5. Payables to employees		258 031	292 536	258 031	292 536
B.III.6. Social security and health insurance payables		118 933	125 232	118 933	125 232
B.III.7. State – tax payables and subsidies		34 999	42 685	34 999	42 685
B.III.8. Short-term prepayments received		56 236	78 737	56 236	78 737
B.III.10. Estimated payables		325 274	276 522	325 274	276 522
B.III.11. Other payables		739 209	147 345	739 209	147 345
<b>B.IV. Bank loans and borrowings</b>		<b>349 709</b>	<b>2 225 374</b>	<b>349 709</b>	<b>2 225 374</b>
B.IV.2. Short-term bank loans		349 709	1 412 257	349 709	1 412 257
B.IV.3. Short-term borrowings			813 117		813 117
<b>C. I. Other liabilities</b>		<b>60 733</b>	<b>66 955</b>	<b>60 733</b>	<b>66 955</b>
C.I.1. Accrued expenses		58 631	63 479	58 631	63 479
C.I.2. Deferred income		2 102	3 476	2 102	3 476

## ■ Profit and loss account

AS OF 31. 12. 2011 / (IN THOUSANDS OF CZK)		YEAR ENDED 31. 12. 2011	YEAR ENDED 31. 12. 2010
<b>II.</b>	<b>Production</b>	<b>14 527 818</b>	<b>14 217 379</b>
II.1.	Sales of own products and services	14 404 017	14 120 917
II.3.	Own work capitalised	123 801	96 462
<b>B.</b>	<b>Purchased consumables and services</b>	<b>8 281 310</b>	<b>8 490 582</b>
B.1.	Consumed material and energy	2 375 022	2 455 615
B.2.	Services	5 906 288	6 034 967
<b>+</b>	<b>Added value</b>	<b>6 246 508</b>	<b>5 726 797</b>
<b>C.</b>	<b>Staff costs</b>	<b>4 431 519</b>	<b>4 706 577</b>
C.1.	Payroll costs	3 169 458	3 416 479
C.2.	Remuneration to members of statutory bodies	15 908	6 839
C.3.	Social security and health insurance costs	1 052 450	1 082 204
C.4.	Social costs	193 703	201 055
D.	Taxes and charges	9 620	2 806
E.	Depreciation of intangible and tangible fixed assets	1 218 100	1 110 894
<b>III.</b>	<b>Sales of fixed assets and material</b>	<b>33 998</b>	<b>311 211</b>
III.1.	Sales of fixed assets	16 335	291 158
III.2.	Sales of material	17 663	20 053
<b>F.</b>	<b>Net book value of fixed assets and material sold</b>	<b>17 893</b>	<b>192 440</b>
F.1.	Net book value of sold fixed assets	4 480	181 659
F.2.	Book value of sold material	13 413	10 781
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	342 520	262 995
IV.	Other operating income	183 524	276 249
H.	Other operating expenses	130 833	163 384
<b>°</b>	<b>Operating profit or loss</b>	<b>313 545</b>	<b>-124 839</b>
<b>VII.</b>	<b>Income from non-current financial assets</b>	<b>15 850</b>	<b>4 886</b>
VII.3.	Income from other non-current financial assets	15 850	4 886
IX.	Income from the revaluation of securities and derivatives	105 109	8 550
L.	Costs of the revaluation of securities and derivatives	176 546	216 972
X.	Interest income	1 868	3 217
N.	Interest expenses	57 787	48 820
XI.	Other financial income	173 636	162 146
O.	Other financial expenses	149 522	206 260
<b>°</b>	<b>Financial profit or loss</b>	<b>-87 392</b>	<b>-293 253</b>
<b>Q.</b>	<b>Income tax on ordinary activities</b>	<b>124 304</b>	<b>9 021</b>
Q.1.	– due	3 720	-2 054
Q.2.	– deferred	120 584	11 075
<b>∞</b>	<b>Profit or loss from ordinary activities</b>	<b>101 849</b>	<b>-427 113</b>
R.	Extraordinary expenses	215 166	
<b>S.</b>	<b>Income tax on extraordinary activities</b>	<b>-40 881</b>	
S.2.	– deferred	-40 881	
<b>°</b>	<b>Extraordinary profit or loss</b>	<b>-174 285</b>	
<b>∞∞</b>	<b>Profit or loss for the current period (+/-)</b>	<b>-72 436</b>	<b>-427 113</b>
<b>∞∞∞</b>	<b>Profit or loss before tax</b>	<b>10 987</b>	<b>-418 092</b>

## ■ Statement of changes in equity

YEAR ENDED 31. 12. 2011 (IN THOUSANDS OF CZK)	REGISTERED CAPITAL	CAPITAL FUNDS	STATUTORY AND OTHER FUNDS	STATUTORY RESERVE FUND	ACCUMULATED PROFITS BROUGHT FORWARD	ACCUMULATED LOSSES BROUGHT FORWARD	PROFIT OR LOSS FOR THE CURRENT PERIOD	TOTAL EQUITY
<b>Balance as of 31<sup>st</sup> December 2010</b>	<b>8 800 000</b>	<b>-484 634</b>	<b>184 660</b>	<b>60 653</b>	<b>97 331</b>		<b>-427 714</b>	<b>8 230 296</b>
Profit/loss allocation						-427 714	427 714	
Change in registered capital	-306 000							-306 000
Revaluation of non-current financial assets		13 486						13 486
Change of value of hedging derivatives		604 760						604 760
Change in deferred tax on financial derivatives		-107 470						-107 470
Use of the social fund			-41 203					-41 203
Profit or loss for the current period							-427 113	-427 113
<b>Balance at 31<sup>st</sup> December 2010</b>	<b>8 494 000</b>	<b>26 142</b>	<b>143 457</b>	<b>60 653</b>	<b>97 331</b>	<b>-427 714</b>	<b>-427 113</b>	<b>7 966 756</b>
Profit/loss allocation						-427 113	427 113	
Revaluation of non-current financial assets		28 740						28 740
Change of value of hedging derivatives		132 308						132 308
Change in deferred tax on financial derivatives		-21 015						-21 015
Use of the social fund			-25 395					-25 395
Profit or loss for the current period							-72 436	-72 436
<b>Balance as of 31<sup>st</sup> December 2010</b>	<b>8 494 000</b>	<b>166 175</b>	<b>118 062</b>	<b>60 653</b>	<b>97 331</b>	<b>-854 827</b>	<b>-72 436</b>	<b>8 008 958</b>

## ■ Cash flow statement

YEAR ENDED 31. 12. 2011 / (IN THOUSANDS OF CZK)		YEAR ENDED 31. 12. 2011	YEAR ENDED 31. 12. 2010
<b>P.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>236 494</b>	<b>195 651</b>
<b>Cash flows from ordinary activities</b>			
Z.	Profit or loss from ordinary activities before tax	227 153	-418 092
<b>A.1.</b>	<b>Adjustments for non-cash transactions</b>	<b>1 578 711</b>	<b>1 366 627</b>
A.1.1.	Depreciation of fixed assets	1 218 100	1 110 894
A.1.2.	Change in provisions and reserves	341 520	262 996
A.1.3.	Profit/(loss) on the sale of fixed assets	-11 855	-109 499
A.1.4.	Revenues from dividends and profit shares	-15 850	-4 886
A.1.5.	Interest expense and interest income	55 919	45 603
A.1.6.	Adjustments for other non-cash transactions	-9 123	61 519
<b>A.°</b>	<b>Net operating cash flow before changes in working capital</b>	<b>1 805 864</b>	<b>948 535</b>
<b>A.2.</b>	<b>Change in working capital</b>	<b>-751 269</b>	<b>471 457</b>
A.2.1.	Change in operating receivables and other assets	-267 706	290 312
A.2.2.	Change in operating payables and other liabilities	-472 087	160 451
A.2.3.	Change in inventories	-11 476	20 695
<b>A.°°</b>	<b>Net cash flow from operations before tax and extraordinary items</b>	<b>1 054 595</b>	<b>1 419 992</b>
A.3.	Interest paid	-57 787	-48 820
A.4.	Interest received	1 868	3 217
A.5.	Income tax paid from ordinary operations	33 108	-46 116
A.7.	Received dividends and profit shares	15 850	4 886
<b>A.°°°</b>	<b>Net operating cash flows</b>	<b>1 047 634</b>	<b>1 333 160</b>
<b>Cash flows from investing activities</b>			
B.1.	Fixed asset expenditure	-1 432 749	-2 251 492
B.2.	Proceeds from fixed assets sold	16 335	291 158
<b>B.°°°</b>	<b>Net investment cash flows</b>	<b>-1 416 414</b>	<b>-1 960 334</b>
<b>Cash flow from financial activities</b>			
C.1.	Change in payables from financing	250 206	709 220
C.2.	Impact of changes in equity	-25 395	-41 203
C.2.5.	Payments from capital funds	-25 395	-41 203
<b>C.°°°</b>	<b>Net financial cash flows</b>	<b>224 811</b>	<b>668 017</b>
<b>F.</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>-143 969</b>	<b>40 843</b>
<b>R.</b>	<b>Closing balance of cash and cash equivalents</b>	<b>92 525</b>	<b>236 494</b>

## 1. General information

### 1.1. INCORPORATION AND A DESCRIPTION OF THE BUSINESS

ČD Cargo, a.s. (hereafter simply referred to as the "Company") was formed after being entered in Section B, Insert 12844 of the Commercial Register held by the Municipal Court in Prague on 1<sup>st</sup> December 2007 by means of an investment involving part of České dráhy a.s.

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

As of 31<sup>st</sup> December 2011, the Company reported a registered capital of 8,494,000 thousand CZK which had been paid in full.

The Company's sole shareholder is České dráhy, a.s.

The principal activities of ČD Cargo, a.s. include the provision of the railway transportation of goods with the set of associated services. The Company's goal is to improve its leading position and become the driving Force in the freight transport markets both in the Czech Republic and in the Central European region.

The principal commercial activity, the railway transportation of goods, is structured according to the type of goods transportation as follows:

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

According to the aforementioned structure, it is appropriate to divide the principal activities into commodities, i.e. according to the nature of the transported goods with regard to capacity requirements, vehicle requirements, demands for operating technologies or the special care of shipments:

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

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

- the operation of and provision of transport on non-public railways – railway sidings;

- shipment and logistics services – predominantly logistics solutions for the transportation of shipments;
- leasing and other motor vehicle management; and
- leasing and other wagon management.

The Company provides the following services with regard to the listed principal and other activities:

- representation in customs proceedings;
- the operation of customs warehouses;
- the storage of goods and handling of cargo;
- road freight transport; an
- safety consultancy for the transportation of dangerous goods.

In its role as transporter, the Company operated almost 1,053 tariff points with dispatching authority for the transportation of wagon loads and 1,097 railway sidings as part of its business activities.

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

### 1.2. THE RELATIONSHIP WITH THE 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 lines in the years ending 31<sup>st</sup> December 2010 and 2011. The costs for the years ending 31<sup>st</sup> December 2010 and 2011 are set out in Notes 4.19 and 4.20.

The Company's income predominantly includes compensation for increased costs incurred as a result of line closures. The income for the years ending 31<sup>st</sup> December 2010 and 2011 is set out in Note 4.22.

As of 31<sup>st</sup> December 2011, the Company had records of receivables from and payables to Správa železniční dopravní cesty, s.o. with an aggregate value amounting to a net payable of 486,120 thousand CZK in the year ending 31<sup>st</sup> December 2011. The aggregate net value of the receivables and payables in the year ending 31<sup>st</sup> December 2010 represented a net payable of 540,318 thousand CZK (net of estimated payables).

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 had not been finalised as of the 2011 financial statement date.

In addition, the Company is also conducting a legal dispute with Správa železniční dopravní cesty, s.o. concerning the method of settlement arising from the damages due to SŽDC, s.o. line closures. This dispute had not been finalised as of the 2011 financial statement date.

### 1.3. THE ORGANISATIONAL STRUCTURE

The organisational structure consists of divisions reporting directly to the Chairman of the Board of Directors or the divisional managers:

- the Sales Manager's Division
- the Operations Director's Division
- the Finance Manager's Division

In addition, the organisational structure includes operational units and rail vehicle repair centres. The Company's internal organisation (the principles of the organisational hierarchy, the organisational structure, The principal management system and the authorities for the organisational structure Units, including the responsibility and authority of the 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 concerning the operation of railway freight and passenger transport and additional and complementary activities, specifically railway research, testing, telematics, accommodation and catering services. České dráhy, a. s. is the largest Czech railway transporter in the Czech Republic and it has a long tradition and is the contractual operator of most railway routes. The Czech Republic is the owner of the České dráhy Group.

#### 1.5. THE COMPANY'S STATUTORY BODIES

The Company's sole owner is České dráhy, a.s. which acts in the capacity of the Company's general meeting, the supreme body of the Company, given that it is the sole shareholder in the Company. The Company's statutory body is the four-member Board of Directors, while the supervisory body is the six-member Supervisory Board. The advisory and initiative body is the three-member Board of Trustees, the members of which are appointed by the general meeting based on a proposal of the Czech Republic – the Ministry of Transport. The Company has established a three-member Audit Committee, the members of which were appointed by the sole shareholder.

#### THE COMPANY'S BODIES AS OF 31<sup>ST</sup> DECEMBER 2011:

##### The Board of Directors at ČD Cargo, a.s.

- Gustav Slamečka, the Chairman of the Board of Directors
- Jan Vlasák, a member of the Board of Directors
- Jiří Špička, a member of the Board of Directors
- Sonny Sonnberger, a member of the Board of Directors

On 7<sup>th</sup> June 2011 České dráhy, a.s., appointed Gustav Slamečka the Chairman of the Board of Directors of ČD Cargo, a.s. effective as of 8<sup>th</sup> June 2011 while acting in its capacity as the sole shareholder in the Company performing the role of general meeting.

On 21<sup>st</sup> June 2011, České dráhy, a.s., dismissed Jiří Vodička from his position as the Chairman and a member of the Company's Board of Directors of the effective as of 21<sup>st</sup> June 2011 and appointed Jan Vlasák a member of the Board of Directors effect as of 21<sup>st</sup> June 2011 while acting in its capacity as the sole shareholder in the Company performing the role of general meeting.

Gustav Slamečka was appointed the Chairman of the Board of Directors effective as of 23<sup>rd</sup> June 2011 at an extraordinary meeting of the Board of Directors held on 22nd June 2011.

On 23<sup>rd</sup> August 2011, České dráhy, a.s. dismissed Milan Matzenauer from and appointed Sonny Sonnberg as a member of the Board of Directors.

##### The Supervisory Board of ČD Cargo, a.s.

- Petr Žaluda, the Chairman of the Supervisory Board
- Radek Nekola, a member of the Supervisory Board
- Jindřich Nohal, a member of the Supervisory Board
- Milan Špaček, a member of the Supervisory Board
- Miroslav Zámečník, a member of the Supervisory Board
- Zdeněk Prosek, a member of the Supervisory Board.

On 23<sup>rd</sup> August 2011, České dráhy, a.s. dismissed Michal Nebeský as a member of the Supervisory Board and appointed Zdeněk Prosek as a member of the Supervisory Board while acting in its capacity as the sole shareholder in the Company performing the role of general meeting.

##### The Board of Trustees of ČD Cargo, a.s.

- Jiří Franc, a member of the Board of Trustees
- Jakub Kopřiva, a member of the Board of Trustees
- Vít Veselý, a member of the Board of Trustees

The Chairman and member of the Board of Trustees, Martin Sýkora, resigned from the position of the Chairman and a member of the Board of Trustees by means of written notification made to the Board of Trustees on 16<sup>th</sup> May 2011. At its 22<sup>nd</sup> meeting held on 2<sup>nd</sup> June 2011 the Board of Trustees discussed and acknowledged the announcement of Martin Sýkora's resignation from the position of the Chairman and a member of the Company's Board of Trustees by means of its resolution no. 142/2011.

On 13<sup>th</sup> December 2011, České dráhy, a.s. appointed Vít Veselý as a member of the Board of Trustees while acting in its capacity as the sole shareholder in the Company performing the role of general meeting and at the suggestion of the Czech Republic - the Ministry of Transport.

##### The Audit Committee of ČD Cargo, a.s.

- Oldřich Vojtík – the Chairman of the Audit Committee
- Miroslav Zámečník – a member of the Audit Committee
- Libor Joukl – a member of the Audit Committee

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

## 2. Accounting policies and general accounting principles

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

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

#### 2.1. REPORTING PERIOD

The Company's financial statements as of 31<sup>st</sup> December 2011 have been prepared as follows:

- The balance sheet contains the information as of 31<sup>st</sup> December 2011 and the comparative information as of 31<sup>st</sup> December 2010;
- The profit and loss statement contains information for the year ending 31<sup>st</sup> December 2011 and comparative information for the year ending 31<sup>st</sup> December 2010;
- The statement of the changes in equity contains information for the year ending 31<sup>st</sup> December 2011 and comparative information for the year ending 31<sup>st</sup> December 2010; and
- The cash flow statement contains information for the year ending 31<sup>st</sup> December 2011 and comparative information for the year ending 31<sup>st</sup> December 2010.

## 3. Summary of the significant accounting policies

#### 3.1. TANGIBLE FIXED ASSETS

Fixed assets include assets with an estimated service life in excess of one year and an acquisition cost greater than 40 thousand CZK (tangible assets except for land, buildings and structures). Land, buildings and structures are treated as fixed assets irrespective of their cost valuation.

With regard to the assets defined by Road Tax Act no. 16/1993 Coll. as amended, the assets also include any assets with an acquisition cost lower than 40 thousand CZK.

Land acquired prior to 1992 and invested in as part of a non-monetary investment is stated at a value prescribed by the regulation issued by the Ministry of Finance as of the date of the acquisition of the assets. Land acquired after the formation of the Company is valued at the acquisition cost.

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

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

Tangible assets with an acquisition cost in excess of 500 CZK, but less than 40 thousand CZK are charged in the period of acquisition and are only maintained in the underlying operational records. The costs of fixed asset improvements exceeding 40 thousand CZK for the period increase the acquisition cost for the related fixed asset.

Replacement costs are used to value gifts and assets identified on the basis of a physical inventory which were previously not recorded in the accounting ledgers and records.

The liabilities related to financing or operative leasing agreements are not recorded on the balance sheet according to the applicable accounting regulations.

Costs incurred with regard to financing and operative leasing are charged to the profit and loss account in the period to which they relate on an accrual 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 asset categories are as follows:

	DEPRECIATION METHOD	NUMBER OF YEARS/%
Buildings	Straight line	20–50 / 5–2 %
Structures	Straight line	20–50 / 5–2 %
Locomotives (parts of locomotives without components)	Straight line	20–25 / 5–4 %
Wagons (parts of wagons without components)	Straight line	30 / 3,33%
Machinery and equipment	Straight line	8–20 / 12,5–5 %

The service lives of wagons that have been modernised have been set at 20 years from the modernisation date.

### Components

Components are repairs which correspond to the definition of the inspection of a fault occurrence listed in Regulation no. 500/2002 Coll., section 56a (2), and comply with the definition of a component (according to section 56a (2) of Regulation no. 500/2002 Coll., a component is an inspection of a fault occurrence for which the valuation amount is significant in proportion to the valuation amount of the total assets or set of assets and the useful life of which significantly differs from the useful life of the assets or set of assets).

### Depreciation of Components

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

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

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

In traction vehicles for which the frequency of repairs depends on the mileage, the average depreciation period has been determined by a professional estimate realised by specialists from the Railway Vehicle Maintenance and Repair Department for each series of traction vehicles. The average depreciation period for general repairs ranges from 4 to 12 years, while its is 8 to 24 years for major repairs. 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 recognised provisions against fixed assets on the basis of an assessment of the fair values of the individual components or groups of assets.

Assets held under financial leasing are depreciated by the lessor. Technical improvements on leased tangible fixed assets are depreciated on a straight-line basis over the leasing term or the estimated useful life, whichever is shorter.

Any gain or loss arising upon the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset as of the date of sale and it is recognised via the profit and loss account.

The valuation difference on acquired assets consists of a positive or negative difference between the valuation of the acquired business or part thereof and the sum of the carrying values of the individual components of the assets of the selling, investing or dissolving entity without any assumed liabilities.

Any 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 60 thousand CZK on an individual basis.

Intangible fixed assets are carried at cost. Intangible assets with an acquisition cost lower than 60 thousand CZK are charged upon acquisition and classified in the underlying operating records. The 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. Any 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 the 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 a maturity in excess of one year held to maturity.

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

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

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 investments in subsidiaries'.

Investments in enterprises in which the Company is in a position to exercise significant influence over the 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 a value equivalent to the Company's share 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 instruments. 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 establish and document whether the hedge has been effective and the hedging relationship have been formally documented;
- the hedge is highly effective (i.e. within a range of 80 percent to 125 percent); and
- the hedge's 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 as of the balance sheet date. The Company uses a reasonable estimate when determining the fair value.

The fair value of financial derivatives is determined as the present value of any expected cash flow arising from these transactions. The present value is established on the basis of models recognised by the Common Market. The parameters identified in 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 with regard to trading derivatives are recognised as an expense or as income from derivative transactions where appropriate. Accounting policies according to the type of the hedging relationship are used for hedging derivatives. The Company uses the cash flow hedge method.

A cash flow hedge hedges the exposure to variability in cash flows which is attributable to a particular risk associated with a legally enforceable contract, a predicted future transaction, groups of assets, groups of liabilities, legally enforceable contracts or predicted future transactions with similar characteristics where the same type and category of risk is the subject of the hedge.

Gains or losses arising throughout the term of the hedge from changes in the fair values of the hedging derivatives contracted under cash flow hedging that are attributable to the hedged risks are retained on the balance sheet. The gains or losses are taken to income or expenses in the same period in which the income or expenses associated with the hedged item are recognised. In circumstances where this takes place before the derivative comes to maturity, the derivative in question is internally classified as a fair value hedge derivative. Gains or losses arising from changes in the fair values of hedging derivatives contracted under cash flow hedging which are attributable to unhedged risks are recorded as expenses or income from derivative transactions as of the measurement date.

### 3.5. INVENTORY

Purchased inventory is valued at its 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 from stock at the cost determined using the weighted arithmetic average method.

Inventory identified during the stock count and previously unrecorded in the accounting records or inventory originating from excess material arising from the disposal or repair of fixed assets or any possible donations are stated at the replacement cost. Provisions are made against the inventory on the basis of the stock taking results as of the balance sheet date. Each type of inventory is assigned a percentage indicating the estimated temporary impairment due to the likelihood of this inventory not being able to be used for the Company's internal purposes or being disposed of at a price lower than cost.

### 3.6. RECEIVABLES

Receivables are stated at their nominal value at their inception. Receivables acquired through assignment are carried at cost.

Receivables due within one year of the balance sheet date are reported as short-term balances. Other receivables are recorded as long-term balances. Provisions are recognised depending on the anticipated recoverability of the receivables pursuant to an individual assessment of the receivables as of the balance sheet date.

**3.7. TRADE PAYABLES**

Payables are stated at their nominal value upon inception. Payables acquired through assignment are carried at cost. Payables due within one year of the balance sheet date are reported as short-term balances. Other payables are recorded as long-term balances.

**3.8. LOANS**

Loans are stated at their nominal value. The portion of long-term loans maturing within one year of 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 costs 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<sup>st</sup> December 2007, the investment in the Company consisted of part of České dráhy (a set of tangible and intangible assets and staff components from the business activities used for railway freight transportation) at values revalued by an expert. The value of these assets listed in the Deed of Foundation as of the Company's foundation date was reported as the Company's registered capital and share premium.

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

The Company has created a social fund. Its creation and use are stipulated by The Company's internal guidelines.

**3.10. RESERVES**

The reserves are intended to cover future obligations or expenses, the nature of which is clearly defined and which are likely to be incurred, but which are uncertain with regard to the amount or the date on which they will arise.

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

The reserve for outstanding leave days has been established on the basis of a reasonable estimate equal to the estimated future cash outflows triggered by the use of the leave days which remain outstanding at the end of the year.

The reserve for business risks has been established on the basis of a reasonable estimate equal to the estimated future cash outflows.

The reserve for freight transport claims has been created using a reasonable estimate of the amount of anticipated future cash outflows.

The reserve for employee benefits includes employee claims for a financial contribution upon celebrating life jubilees, financial contributions upon retirement and the payment of treatment fees including salary refunds during wellness stays.

When calculating the provisions, the Company has used an actuarial model which is based on the up-to-date employee information (the number of employees, the date of the old-age pension claims, the average wage

and amount of the financial contribution) and the anticipated parameters established on the basis of a reasonable estimate and the publicly available statistical documents: an anticipated employee fluctuation of 5%, an anticipated wage increase of 2.4%, an anticipated inflation level of 2% and the likelihood of death or disablement according to the data from 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 a change in these parameters will be reported in profit and loss statement line G "Changes 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 has been accounted for in full using extraordinary expenses.

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

**3.11. FOREIGN CURRENCY CONVERSION**

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. As of the balance sheet date, any assets and liabilities denominated in foreign currencies are converted at the Czech National Bank's exchange rate as of that date.

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

**3.12. FINANCIAL LEASING**

A financial lease involves the acquisition of a tangible fixed asset so that the ownership title to the asset transfers from the lessor to the lessee during or after the contractual lease term; pending the transfer of the title, the lessee makes leasing payments to the lessor for the asset which are charged to expenses. The initial lump-sum payment related to assets acquired under financial leasing is amortised and charged over the lease period.

**3.13. CONTRACTUAL FINES AND DEFAULT INTEREST**

Contractual fines and interest on the late payment of receivables and payables are recorded when the receivable originates or the payable is incurred in accordance with the Czech legislation valid as of the balance sheet date.

**3.14. TAXATION****3.14.1. The depreciation of fixed assets for tax purposes**

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

**3.14.2. Current tax payables**

The Company management recognises the tax payables and tax charges based on the tax calculations which are based on the management's understanding of the interpretation of the Czech tax legislation valid as of the financial statement date and it believes that the amount of tax is correct and in compliance with the effective Czech tax regulations. Since

third parties, including state administrative bodies, have various interpretations of the tax laws, 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 apply in the period when the tax liability is settled or the asset realised. The balance sheet liability method focuses on temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount which will be deductible for tax purposes in the future.

The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent where 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 in order to determine whether there is any indication that those assets have suffered an impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (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 in order to enable the acquisition of tangible and intangible fixed assets and technical improvements and grants towards interest expenses added to costs are deducted when reporting their cost or internal cost.

**3.17. REVENUE AND EXPENSES**

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

The expenses and revenues 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 the financial statements requires the management to make estimates and assumptions that affect the reported amounts of the assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The Company management has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, the

actual results and outcomes in the future may differ from these estimates according to the nature of the given estimates.

**3.19. EXTRAORDINARY EXPENSES AND INCOME**

Extraordinary items involve income or expenses which arise from events or transactions which are clearly distinct from the Company's ordinary activities, as well as income or expenses from events or transactions that are not expected to recur frequently or regularly. As of 31<sup>st</sup> December 2011, the Company accounted for its reserves for restructuring and employee benefits via extraordinary expenses (refer to Note 3.10.).

**3.20. CASH FLOW STATEMENT**

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

(000 CZK)	31. 12. 2011	31. 12. 2010
Cash on hand and cash in transit	2 164	2 376
Cash at bank	90 361	234 118
<b>Total cash and cash equivalents</b>	<b>92 525</b>	<b>236 494</b>

The 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 statement

### 4.1. FIXED ASSETS

#### 4.1.1. Intangible Fixed Assets

##### ■ Cost

('000 CZK)	BALANCE AT 31 DEC 2009	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE AT 31 DEC 2010	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE AT 31 DEC 2011
Start-up costs	28 492	0	0	0	28 492	0	0	0	28 492
Software	280 802	76 330	0	-56 687	300 445	49 065	0	-3 345	346 165
Valuable rights	10 365	47 252	0	56 687	114 304	16 930	98	3 345	134 481
Intangible FA under construction	87 476	80 869	126 445	0	41 900	66 232	66 138	0	41 994
<b>Total</b>	<b>407 135</b>	<b>204 451</b>	<b>126 445</b>	<b>0</b>	<b>485 141</b>	<b>132 227</b>	<b>66 236</b>	<b>0</b>	<b>551 132</b>

##### ■ Accumulated Amortisation

('000 CZK)	BALANCE AT 31 DEC 2009	ADDITIONS	TRANSFERS	BALANCE AT 31 DEC 2010	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE AT 31 DEC 2011
Start-up costs	9 972	5 699	0	15 671	5 698	0		21 369
Software	159 457	40 934	-24 274	176 117	35 309	0	-93	211 333
Valuable rights	3 120	18 708	24 274	46 102	25 699	98	93	71 796
<b>Total</b>	<b>172 549</b>	<b>65 341</b>	<b>0</b>	<b>237 890</b>	<b>66 706</b>	<b>98</b>	<b>0</b>	<b>304 498</b>

##### ■ Net Book Value

('000 CZK)	BALANCE AT 31 DEC 2009	BALANCE AT 31 DEC 2010	BALANCE AT 31 DEC 2011
Start-up costs	18 520	12 821	7 123
Software	121 345	124 328	134 832
Valuable rights	7 245	68 202	62 685
Intangible FA under construction	87 476	41 900	41 994
<b>Total</b>	<b>234 586</b>	<b>247 251</b>	<b>246 634</b>

Intangible fixed assets predominantly include the formation yard information systems, the SAP upgrade, MS EA, the OPT information system licences and the central wagon navigation information system.

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

#### 4.1.2. Start-up Costs

The start-up costs included the capitalised expenses from the date of the Company's formation at the amount of 28,492 thousand CZK; the amortisation charges in the years ending 31<sup>st</sup> December 2011 and 2010 amounted to 5,698 thousand CZK and 5,698 thousand CZK respectively.

### 4.2. TANGIBLE FIXED ASSETS

##### ■ Costs

('000 CZK)	BALANCE AT 31 DEC 2009	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE AT 31 DEC 2010	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE AT 31 DEC 2011
Land	113 034	3 106	34 900	0	81 240	0	0	0	81 240
Buildings	1 062 918	97 144	2 904	1 038	1 158 196	77 584	247	758	1 236 291
Individual chattels	18 850 225	1 544 772	769 711	-1 038	19 624 248	1 027 620	108 336	-758	20 542 774
– of which components	1 573 133	871 328	95 023	0	2 349 438	710 632	1 179	755	3 059 646
– Machinery, equipment, furniture and fixtures	421 122	46 934	47 713	-1 038	419 305	31 338	20 475	4 910	435 078
– Vehicles	18 409 160	1 497 025	715 781	943	19 191 347	991 517	82 909	-926	20 099 029
– Low value tangible assets	19 943	813	6 217	-943	13 597	4 765	4 952	-4 743	8 667
Works of art	48	0	0	0	48	0	0	0	48
Tangible fixed assets under construction	101 379	1 639 872	1 646 069	0	95 182	1 119 444	1 105 397	0	109 229
Prepayments for tangible fixed assets	71 082	217 627	49 282	0	239 427	0	27	0	239 400
Valuation difference on acquired assets	5 611 411	0	0	0	5 611 411	0	0	0	5 611 411
<b>Total</b>	<b>25 810 097</b>	<b>3 502 521</b>	<b>2 502 866</b>	<b>0</b>	<b>26 809 752</b>	<b>2 224 648</b>	<b>1 214 007</b>	<b>0</b>	<b>27 820 393</b>

## ■ Accumulated Depreciation

('000 CZK)	BALANCE AT 31 DEC 2009	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE AT 31 DEC 2010	ADDITIONS	DISPOSALS	TRANSFERS	BALANCE AT 31 DEC 2011
Buildings	535 233	23 230	162	389	558 690	25 872	247	60	584 375
Individual chattels	12 339 928	624 479	563 669	-389	12 400 349	751 780	103 469	-60	13 048 600
– of which components	476 719	232 374	16 931	0	692 162	364 434	299	430	1 056 727
– Machinery, equipment, furniture and fixtures	319 988	14 080	43 184	-389	290 495	16 171	20 413	3 774	290 027
– Vehicles	12 001 439	610 093	514 426	101	12 097 207	735 316	78 140	-3 766	12 750 617
– Low value tangible assets	18 501	306	6 059	-101	12 647	292	4 916	-68	7 955
Valuation difference on acquired assets	779 363	374 094	0	0	1 153 457	589 094	215 000	0	1 527 551
<b>Total</b>	<b>13 654 524</b>	<b>1 021 803</b>	<b>563 831</b>	<b>0</b>	<b>14 112 496</b>	<b>1 366 746</b>	<b>318 716</b>	<b>0</b>	<b>15 160 526</b>

## ■ Provisions

('000 CZK)	BALANCE AT 31 DEC 2009	ADDITIONS	DISPOSALS	BALANCE AT 31 DEC 2010	ADDITIONS	DISPOSALS	BALANCE AT 31 DEC 2011
Individual chattels	32 655	34 549	32 655	34 549	107 527	34 549	107 527
– Vehicles	32 655	34 549	32 655	34 549	107 527	34 549	107 527
Prepayments for tangible FA	0	0	0	0	3 700	0	3 700
<b>Total</b>	<b>32 655</b>	<b>34 549</b>	<b>32 655</b>	<b>34 549</b>	<b>111 227</b>	<b>34 549</b>	<b>111 227</b>

## ■ Net Book Value

('000 CZK)	BALANCE AT 31 DEC 2009	BALANCE AT 31 DEC 2010	BALANCE AT 31 DEC 2011
Land	113 034	81 240	81 240
Buildings	527 685	599 506	651 916
Buildings	6 477 642	7 189 350	7 386 647
– of which components	1 096 414	1 657 276	2 002 919
– Machinery, equipment, furniture and fixtures	101 134	128 811	145 051
– Vehicles	6 375 066	7 059 590	7 237 185
– Low value tangible assets	1 442	950	712
Works of art	48	48	48
Tangible fixed assets under construction	101 379	95 182	109 229
Prepayments for tangible fixed assets	71 082	239 427	235 700
Valuation difference on acquired assets	4 832 048	4 457 954	4 083 860
<b>Total</b>	<b>12 122 918</b>	<b>12 662 707</b>	<b>12 548 640</b>

The tangible fixed assets did not change significantly during the reporting period.

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 the rail vehicles (locomotives, other rail vehicles) used for the railway freight transport operations. These items are provisioned at the amount of the difference between the accounting net book value and the recoverable amount at the amount of 107,527 thousand CZK.

In the years ending 31<sup>st</sup> December 2011 and 2010, the Company acquired tangible fixed assets recognised in its expenses at the amount of 31,854 thousand CZK and 35,145 thousand CZK respectively. These assets are low value tangible assets consisting of other chattels and sets of chattels with an estimated service life in excess of one year not reported within the fixed assets. These assets are accounted for as inventory and they are charged.

Prepayments made for tangible fixed assets amounted to 235,700 thousand CZK as of 31<sup>st</sup> December 2011 and relate to the ongoing conversion of the traction vehicles from series 163 to series 363.5.

### 4.2.1. Fixed Assets Pledged as Security

As of 31<sup>st</sup> December 2011 and 2010, no Company assets had been pledged as security.

### 4.2.2. Investment Grants

The Company received no investment grants In the years ending 31<sup>st</sup> December 2011 and 2010.

#### 4.2.3. Assets held under financial leasing

##### ■ Financial Leasing

DESCRIPTION (‘000 CZK)	DATE OF INCEPTION	TERM IN MONTHS	TOTAL LEASE VALUE (NET OF VAT)	PAYMENTS MADE AT 31 DEC 2011 FROM THE INCEPTION OF THE LEASE	DUE (IN 2012)	DUE IN (THE FOLLOWING YEARS)
Locomotive 709	1.07	120	56 179	28 259	5 455	22 465
Locomotive 753	12.08	120	1 179 822	261 250	117 559	801 010
Locomotive 230	12.10	120	272 268	65 563	23 181	183 524
<b>Wagons:</b>						
Sgnss	1.07	123	416 571	200 490	41 112	174 969
Sgnss – Framework contract	10.05	96	144 649	114 084	17 875	12 690
HabbiInss	12.05	96	851 567	621 932	104 482	125 153
Zacns	4.06	96	79 293	56 611	9 721	12 961
Tadnss/Tadgnss	5.06	96	285 676	197 625	35 032	53 020
Sggmrss 90´	12.07	60	381 804	225 120	70 493	86 192
Sggrss 80´	7.08	60	709 064	353 953	112 010	243 101
Zacns	10.10	120	199 852	22 626	19 982	157 244
ŽNV 1145 pieces	12.09	120	1 476 505	504 505	121 500	850 500
<b>Total</b>			<b>6 053 250</b>	<b>2 652 018</b>	<b>678 402</b>	<b>2 722 829</b>

Note.: The total lease value during the payment of the instalments has been affected by a change in the interest rates.

On 24<sup>th</sup> February 2005, České dráhy, a.s. concluded a general leasing contract to finance a purchase of railway wagons under financial leasing at an aggregate amount of 1,200,000 thousand CZK. 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 leasing contracts. The ownership rights to the assets which were subject to the leasing were transferred to Fortis Lease Czech, s.r.o. from CitiLeasing, s.r.o. effective as of 1<sup>st</sup> December 2006. In accordance with the bill of exchange agreement, the lessor will be entitled to fill in the bill of exchange with a sum equalling the due leasing amount, including any accrued interest, with a limit of 40 percent of the acquisition cost excluding VAT for 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. effective as of 1<sup>st</sup> April 2011.

In relation to the establishment of the ČD Cargo, a.s. subsidiary which is principally engaged in railway freight transportation, all the rights (receivables) and

payables arising from this general leasing contract with České dráhy, a. s. were transferred to the Company effective as of 1<sup>st</sup> December 2007.

In addition, České dráhy, a.s. also concluded contract no. 01/2007 with Deutsche Leasing, s.r.o. for the leasing of 100 Sggmrss 90´ wagons and 200 Sggrss 80´ wagons on 2<sup>nd</sup> August 2007. The aggregate amount of the payments, including the purchase price of the Sggmrss 90´ wagons and the Sggrss wagons is 381,803 thousand CZK and 709,065 thousand CZK respectively. These wagons were supplied by Deutsche Leasing s.r.o. on a gradual basis. Each wagon has its own repayment schedule which includes a breakdown of 60 monthly payments and the repurchase price. In relation to the establishment of the ČD Cargo, a.s. subsidiary, all the rights from this leasing contract were transferred from České dráhy, a.s. to ČD Cargo, a.s. effective as of 1<sup>st</sup> December 2007.

On 9<sup>th</sup> July 2008, ČD Cargo, a.s. concluded a leasing contract for the financing of 30 modernised 753.7 series locomotives with ING Lease (ČR), s.r.o.,

with the gradual supply according to the schedule up until 30<sup>th</sup> June 2010 in the form of financial leasing at an aggregate amount of 1,004,410 thousand CZK (excluding VAT). The lease period was determined as 10 years (120 even payments). Each leased asset referred to above is paid for based on an individual payment schedule. 19 modernised locomotives from the leased assets referred to above were supplied prior to 31<sup>st</sup> December 2009.

On 30<sup>th</sup> December 2009, ČD Cargo, a.s. concluded three contracts for the sale and subsequent financial lease-back of a total of 1,145 railroad vehicles with a selling price of 1,161,505 thousand CZK (excluding VAT) with Financial Found a.s.. In 2009, the extraordinary leasing payment (initial lump-sum payment) of 261,505 thousand CZK (excluding VAT) was made. The lease term was determined as 10 years (120 even payments of 10,125 thousand CZK excluding VAT).

The lease payments remain unchanged over the lease period unless the 12M PRIBOR rate changes as of the end of the reporting period, but by more than 1% in comparison with the 12M PRIBOR applicable for the first period for the first time as of 31<sup>st</sup> December 2011.

On 24<sup>th</sup> November 2010, ČD Cargo, a.s. concluded a contract for the sale and subsequent financial lease-back of 7 electric alternating current locomotives with a selling price of 210,450 thousand CZK (excluding VAT) with ČSOB Leasing. The initial lump sum prepayment of 40,450 thousand CZK (excluding VAT) was offset in full against the ČD Cargo, a.s. receivable for the selling price of the locomotives in 2010. The lease period was determined as 10 years (120 even payments of 1,932 thousand CZK excluding VAT).

Each individual leased asset referred to above is paid for on the basis of an individual payment schedule.

On 15<sup>th</sup> June 2010, ČD Cargo, a.s. concluded a contract for the leasing of 50 Zacns tanker wagons with Finrail, s.r.o. with a selling price of 140,000 thousand CZK (excluding VAT). The lease period was determined as 10 years (120 even payments of 1,665 thousand CZK excluding VAT). The lease payments remain unchanged over the lease period unless the 12M PRIBOR rate changed as of the end of the reporting period, but by more than 1% in comparison with the 12M PRIBOR applicable for the first period for the first time as of 31<sup>st</sup> December 2011.

#### 4.2.4. OPERATIVE LEASING

The Company held cars under operative leasing in the year ending 31<sup>st</sup> December 2009. The aggregate amount of the leasing was 48,852 thousand CZK as of 31<sup>st</sup> December 2011. During 2011, the paid instalments amounted to 19,749 thousand CZK. During 2010, the paid instalments amounted to 21,945 thousand CZK.

In August 2010, the Company concluded a contract for the leasing of computers (end equipment – desktops, laptops) with ČD-Telematika, a.s. The total operative leasing payments as of 31<sup>st</sup> December 2011 and 2010 amounted to 38,540 thousand CZK. The total operative leasing payments as of 31<sup>st</sup> December 2011 and 2010 amounted to 10,838 thousand CZK and 4,185 thousand CZK respectively.

#### 4.3. NON-CURRENT FINANCIAL ASSETS

##### ■ Costs

('000 CZK)	CARRYING VALUE			CARRYING VALUE		
	BALANCE AT 31 DEC 2009	ADDITIONS	REVALUATION AT 31 DEC 2010	BALANCE AT 31 DEC 2010	REVALUATION AT 31 DEC 2011	BALANCE AT 31 DEC 2011
Equity investments in subsidiaries	41 984	36 994	6 286	85 264	17 080	102 344
Equity investments in associates	24 343	0	7 200	31 543	11 659	43 202
<b>Total</b>	<b>66 327</b>	<b>36 994</b>	<b>13 486</b>	<b>116 807</b>	<b>28 739</b>	<b>145 546</b>

#### 4.3.1. Equity Investments in Subsidiaries

##### ■ Year ending 31<sup>st</sup> December 2011

NAME OF THE ENTITY ('000 CZK)	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 Wien, Rakousko	7 333	-394	100	6 939	699	6 939
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozká 4/B, 821 09 Bratislava	6 405	334	100	6 739	4 701	6 739
Terminal Brno, a.s.	K terminálu 614/11, 619 00, Brno	35 834	-2 522	66,94	49 766	-3 768	33 312
ČD-DUSS Terminál, a.s.	Lukavecká 1189, 410 02, Lovosice	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.	Opletalova 1284/37, 110 00, Prague 1	10 154	2 828	56	23 183	5 490	12 982
<b>Total</b>		<b>85 264</b>	<b>17 080</b>				<b>102 344</b>

\*) – Information was not available as of the balance sheet date  
– The entity's equity and profit/ loss are preliminary unaudited figures

##### ■ Year ending 31<sup>st</sup> December 2010

NAME OF THE ENTITY ('000 CZK)	REGISTERED OFFICE	VALUATION AT 31 DEC 2009	REVALUATION	OWNERSHIP PERCENTAGE	EQUITY	PROFIT OR LOSS	VALUATION AT 31 DEC 2010
CD Generalvertretung GmbH	Kaiserstrasse 60, 60 329 Frankfurt am Main, Germany	7 808	4 252	100	12 059	9 371	12 060
Koleje Czeskie Sp. z o.o.	Grzybowska nr 4, lok. 3, 00-131 Warsaw, Poland	5 407	4 979	100	10 386	4 773	10 386
CD-Generalvertretung Wien GmbH	Rotenturmstraße 22/24, 1010 Wien, Austria	7 359	-26	100	7 332	2 010	7 333
Generálne zastúpenie ČD Cargo, s.r.o.	Prievozká 4/B, 821 09 Bratislava	6 159	246	100	6 405	2 150	6 405
Terminal Brno, a.s.	K terminálu 614/11, 619 00, Brno	1 214	-2 374	66,94	53 534	-1 824	35 834
ČD-DUSS Terminál, a.s.	Lukavecká 1189, 410 02, Lovosice	3 040	52	51	6 062	117	3 092
ČD Trans s.r.o.	Leninova 22, 224005 Brest, Belarus	0	0	51	°	-448	0
ČD Logistics, a.s.	Opletalova 1284/37, 110 00, Prague 1	10 997	-843	56	18 133	3 770	10 154
<b>Total</b>		<b>41 984</b>	<b>6 286</b>				<b>85 264</b>

\*) – Information was not available as of the balance sheet date  
– The entity's equity and profit/ loss are preliminary unaudited figures

##### TERMINAL BRNO, A.S.

The company was established on 20<sup>th</sup> December 2007 by means of a cash investment and entered in the Commercial Register on 25<sup>th</sup> July 2008. The registered capital is 2,000 thousand CZK. The equity investment in ČD Cargo was 60.50 percent (i.e. 1,210 thousand CZK). Effective as of 11<sup>th</sup> November 2010, Terminal Brno, a.s. increased its registered capital to 55,350 thousand CZK by means of a non-monetary investment of 53,350 thousand CZK. ČD Cargo increased its equity investment to 66.94% (i.e. 37,050 thousand CZK) by means of a non-monetary investment of 35,840 thousand CZK. Its principal activities include the storage of goods and cargo handling (the storage of shipments in combined transportation - containers, exchangeable superstructures and road semi-trailers, technical activities in transportation). The company started its commercial activities in the second quarter of 2011.

##### ČD LOGISTICS, A.S.

The company was established by means of a cash transaction on 17<sup>th</sup> April 2007 and Entered in the Commercial Register on 16<sup>th</sup> June 2007. The registered capital amounts to 10,000 thousand CZK. On 28<sup>th</sup> January 2008, ČD Cargo purchased a 34% holding in ČD Logistics, a.s. (3,400 thousand CZK).

On 2<sup>nd</sup> December 2009, ČD Cargo purchased a 22% holding in ČD Logistics, a.s. (2,200 thousand CZK). Currently, ČD Cargo holds a total of 56% of the registered capital in ČD Logistics, a.s. (5,600 thousand CZK). 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 entered in the Commercial Register on 1<sup>st</sup> March 2007. The registered capital amounts to 4,000 thousand CZK. ČD Cargo obtained a holding amounting to 51% (i.e. 2,040 thousand CZK) from České dráhy, a.s. as a capital investment upon being establishment. The company is engaged in the operation of container terminals, including additional services (road collection and the distribution of shipments, repairs to load unit stock-piles).

##### CD GENERALVERTRETUNG GMBH

The company was established by means of a cash transaction and entered in the Commercial Register in Germany on 11<sup>th</sup> October 2004. The registered capital amounts to 50 thousand EUR. ČD Cargo is the sole owner. The company is involved in the mediation of freight transportation services on behalf of

ČD Cargo, general representation and comprehensive information services for the customers of ČD Cargo.

#### KOLEJE CZESKIE SP. Z O.O.

The company was established by means of a cash investment and entered in the Commercial Register in Poland on 18<sup>th</sup> December 2006. The registered capital is 100 thousand PLN. ČD Cargo is the sole owner. The company is involved in the mediation of freight transportation services on behalf of ČD Cargo, general representation and comprehensive general information services for customers in the territory of Poland, Lithuania, Latvia and Estonia.

#### CD – GENERALVERTRETUNG WIEN GMBH

The company was established on 19<sup>th</sup> March 2007 by means of a cash investment and entered recorded in the Commercial Register in Austria on 30<sup>th</sup> March 2007. The registered capital amounts to 45 thousand EUR. ČD Cargo is the sole shareholder. The company is involved in the mediation freight transportation services and commercial representation in Austria, Italy, parts of Hungary, Switzerland and the former Yugoslavia.

#### GENERÁLNE ZASTÚPENIE ČD CARGO, S.R.O.

The company was established on 4<sup>th</sup> August 2008 by means of a cash investment and entered in the Commercial Register in Slovakia on 24<sup>th</sup> September 2008. The registered capital was 200 thousand SKK. Since 5<sup>th</sup> September 2009, the registered capital has been recorded in the Commercial Register at the converted amount of 6,639 EUR. ČD Cargo is the sole owner. The company is involved in commercial representation and mediation services in transportation and services.

#### ČD TRANS S.R.O. (ИООО «ЧД ТРАНС» )

The company was established on 4<sup>th</sup> February 2008 by means of a cash investment and entered in the Commercial Register in Belarus on 23<sup>rd</sup> April 2008. The registered capital amounts to 100 thousand USD. The ČD Cargo shareholding is 51 percent (i.e. 51 thousand USD). On 30<sup>th</sup> April 2010, the owners changed following the sale of the shareholdings of NH - Trans, SE (25%) and Česká východní, a.s. (24%) to Koleje Czeskie Sp. z o.o. (49%).

During 2011 (16<sup>th</sup> March 2011), the regular general meeting of ČD Trans s.r.o. approved a reduction of the registered capital from 100,000 USD to the statutory defined minimum level of 20,000 USD (due to the decline in the entity's net assets to 30,437 USD as of 31st December 2010). The ČD Cargo shareholding is currently 10,200 USD. The business share has remained unchanged. The entity is involved in transportation and the transport of cargo, including services at the Brest terminal. The company is dormant.

#### 4.3.2. Equity Investments in Associates

##### ■ Year Ending 31<sup>st</sup> December 2011

NAME OF THE ENTITY ('000 CZK)	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, post code: 110 00	2 543	1 877	30	14 735	2 508	4 420
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, post code: 702 00	29 000	5 243	20	171 216	33 707	34 243
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, čp. 1112, post code: 152 00	0	4 539	50	9 077	11 224	4 539
<b>Total</b>		<b>31 543</b>	<b>11 659</b>				<b>43 202</b>

\*) – The entity's equity and profit/ loss are preliminary unaudited figures

##### ■ Year Ending 31<sup>st</sup> December 2010

NAME OF THE ENTITY ('000 CZK)	REGISTERED OFFICE	VALUATION AT 31 DEC 2009	REVALUATION	OWNERSHIP PERCENTAGE	EQUITY	PROFIT OR LOSS	VALUATION AT 31 DEC 2010
BOHEMIAKOMBI, spol. s r.o.	Prague 1, Opletalova 6, post code: 110 00	3 583	-1 040	30	8 478	-3 499	2 543
Ostravská dopravní společnost, a.s.	Ostrava, Přívoz, U Tiskárny 616/9, post code: 702 00	20 760	8 240	20	145 000	41 500	29 000
RAILLEX a.s.	Prague 5, Trnkovo nám. 3, čp. 1112, post code: 152 00	0	0	50	-2 145	7 710	0
<b>Total</b>		<b>24 343</b>	<b>7 200</b>				<b>31 543</b>

\*) – The entity's equity and profit/ loss are preliminary unaudited figures

#### RAILLEX, A.S.

The company was established by means of a cash investment and entered in the Commercial Register on 17<sup>th</sup> June 2006. The registered capital is 2,000 thousand CZK. ČD Cargo has a 50% shareholding (1,000 thousand CZK). The company is managed using the standard governance method. The company is involved in cargo handling and technical services in transportation.

#### BOHEMIAKOMBI, SPOL. S R.O.

The company was established by means of a cash investment and entered in the Commercial Register on 17<sup>th</sup> April 1992. The registered capital is 6,000 thousand CZK. ČD Cargo has a 30 percent shareholding (1,800 thousand CZK). The company is involved in the mediation of transportation services with the exception of transportation using its vehicles.

#### OSTRAVSKÁ DOPRAVNÍ SPOLEČNOST, A.S.

The company was entered in the Commercial Register on 30<sup>th</sup> May 1995. The registered capital is 15,000 thousand CZK. ČD Cargo has a 20 percent shareholding (i.e. 3,000 thousand CZK). The company is managed using the "German" governance method. The company is involved in railway transportation operations and locomotive leasing.

**4.3.3. Loans and credits to affiliated entities**

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 following table shows the current balance of the outstanding receivables.

**■ Balance as of 31<sup>st</sup> December 2011**

LOAN / ('000 CZK)	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 LOAN	SHORT-TERM PORTION OF THE LOAN	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 31st December 2011 at the amount of 12,661 thousand CZK is included in financial statement line B.III.4. "Loans and credits – controlled or controlling entity". The short-term portion at the amount of 5,081 thousand CZK 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 at the amount of 6,578 thousand CZK, is presented in line C.II.3. "Receivables – substantial influence". The short-term portion at the amount of 3,521 thousand CZK is presented in line C.III.3. "Receivables – substantial influence".

**■ Balance as of 31<sup>st</sup> December 2010**

LOAN / ('000 CZK)	LONG-TERM PORTION OF THE LOAN	SHORT-TERM PORTION OF THE LOAN	TOTAL
Total	18 064	5 588	23 652
Principal	16 800	4 800	21 600
Interest	1 264	788	2 052
RAILWAY SIDING	LONG-TERM PORTION OF THE LOAN	SHORT-TERM PORTION OF THE LOAN	TOTAL
Total	10 098	7 499	17 597
Principal	9 287	4 643	13 930
Interest	811	2 856	3 667

The long-term portion of the unpaid loan including interest as of 31<sup>st</sup> December 2010 at the amount of 18,064 thousand CZK is included in financial statement line B.III.4. "Loans and credits – controlled or controlling entity". The short-term portion at the amount of 5,588 thousand CZK 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 as of 31<sup>st</sup> December 2010 at the amount of 10,098 thousand CZK, is presented in line C.II.3. "Receivables – substantial influence". The short-term portion at the amount of 7,499 thousand CZK is presented in line C.III.3. "Receivables – substantial influence".

**4.4. INVENTORY**

('000 CZK)	31 DEC 2011	31 DEC 2010
Spare parts and other components for rail vehicles and locomotives	46 883	47 678
Other spare parts and other low value components	66 690	56 939
Fuels and other crude oil based products	3 345	2 989
Rail switches, turntables, traversers and components for the track superstructure	900	827
Work shoes and protective supplies	553	795
Other	9 358	9 753
<b>Total acquisition cost</b>	<b>127 729</b>	<b>118 981</b>
Provisions	0	0
<b>Net balance</b>	<b>127 729</b>	<b>118 981</b>

The Company made no provisions according to the inventory count in the years ending 31<sup>st</sup> December 2011 and 2010.

**4.5. SHORT-TERM RECEIVABLES****4.5.1. Trade Receivables**

RECEIVABLES / ('000 CZK)	TOTAL	BEFORE DUE DATE	PAST DUE DATE	0–90	91–180	181–365	366–730	OVER 730
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
31 Dec 2010 gross	1 466 603	1 214 470	252 131	82 810	3 770	19 031	39 314	107 207
1 Dec 2010 provisions	-72 522	0	-72 522	-1 797	-514	-4 157	-18 902	-47 153
1 Dec 2010 net	1 394 081	1 214 470	179 609	81 013	3 256	14 874	20 412	60 054

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.

Tax deductible provisions were calculated in accordance with Provisioning Act no. 593/1992 Coll. Provisions recorded over and above the requirements of the Provisioning Act were determined at the amount of 15% of the value of the receivable in the case of receivables more than 30 days past their due date for which no tax deductible provision had been recognised. The year-on-year increase in the total provisions is attributable to the additional recognition of provisions against receivables according to Section 8a (3) of the Provisioning Act.

#### 4.5.2. Short-Term Intercompany Receivables

##### ■ Short-term trade receivables

NAME OF THE ENTITY / ('000 CZK)	BALANCE AT 31 DEC 2011	BALANCE AT 31 DEC 2010
DPOV, a.s.	11 610	10 198
ČD, a.s.	8 196	8 178
Výzkumný Ústav Železniční, a.s.	371	1 122
ČD-Telematika, a.s.	21	37
ČDT-Infomační Systémy, a.s.	0	0
Dopravní vzdělávací institut, a.s.	0	0
ČD Reality, a.s.	0	0
RAILREKLAM, spol. s r.o.	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
ČD Logistics, a.s.	107 190	84 764
RAILLEX, a.s.	2 775	4 530
BOHEMIAKOMBI, spol. s r.o.	1 299	523
Ostravská dopravní společnost, a.s.	5 465	2 058
CD Generalvertretung GmbH	12 267	2 099
CD-Generalvertretung Wien GmbH	0	0
Koleje Czeskie Sp. z o. o.	18 269	11 514
Generálne zastúpenie ČD Cargo, s.r.o.	0	231
<b>Total short-term intercompany receivables</b>	<b>167 463</b>	<b>125 254</b>

#### 4.6. ESTIMATED RECEIVABLES

The Company recognised the following estimated receivables as of 31<sup>st</sup> December 2011 and 31<sup>st</sup> December 2010:

('000 CZK)	31 DEC 2011	31 DEC 2010
Income from international wagon load transportation – export	18 253	25 096
Income from international wagon load transportation – import	23 153	22 312
Income from international wagon load transportation	44 449	73 772
Income from local wagon load transportation	11	0
Other estimated receivables (wagon leasing and repairs, financial bonuses, damages)	139 273	137 490
Income from border services	39 212	40 794
Estimated receivables – ČD, a.s.	27	430
<b>Total estimated receivables</b>	<b>264 378</b>	<b>299 894</b>

#### 4.7. DEFERRED EXPENSES

Deferred expenses amounted to 347,162 thousand CZK and 335,506 thousand CZK as of 31<sup>st</sup> December 2011 and 31<sup>st</sup> December 2010 respectively. As of 31<sup>st</sup> December 2011, this amount predominantly included financial leasing instalments at the amount of 246,540 thousand CZK. These payments amounted to 276,728 thousand CZK as of 31<sup>st</sup> December 2010.

#### 4.8. EQUITY

##### 4.8.1. Registered Capital

As of 31<sup>st</sup> December 2009, the Company's registered capital consisted of the non-monetary investment contribution of part of the business of České dráhy, a.s. as the sole shareholder and it amounted to 8,800,000 thousand CZK.

While acting in its capacity as the general meeting, České dráhy, a.s. adopted a resolution to decrease the ČD Cargo, a.s. registered capital from 8,800,000 thousand CZK to 8,494,000 thousand CZK on 2<sup>nd</sup> June 2009 in accordance with section 213a of the Commercial Code. As of the balance sheet date on 31<sup>st</sup> December 2011, the Company recorded the registered capital of 8,494,000 CZK as having been paid in full.

##### 4.8.2. Changes in Equity

The changes in equity are presented in the Statement on the Changes in Equity as of 31<sup>st</sup> December 2011.

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

('000 CZK)	31 DEC 2011	31 DEC 2010
Valuation of derivatives hedging future cash flows	-36 738	- 169 048
Valuation of an equity investment accounted for using the equity method of accounting	57 393	28 654
Deferred tax on derivatives	6 980	27 996
<b>Total</b>	<b>27 635</b>	<b>- 112 398</b>

#### 4.10. RESERVES

('000 CZK)	BALANCE AT 31 DEC 2009	RECOGNITION	USE	BALANCE AT 31 DEC 2010	RECOGNITION	USE	BALANCE AT 31 DEC 2011
Reserve for complaints	8 252	19 165	8 252	19 165	23 997	19 165	23 997
Reserve for legal disputes	9 017	7 198	9 017	7 198	18 065	8 370	16 893
Reserve for outstanding days of leave	24 390	27 582	24 390	27 582	25 827	27 582	25 827
Reserve for commercial risks	0	240 000	0	240 000	150 000	0	390 000
Reserve for restructuring	0	0	0	0	110 365	0	110 365
Reserve for employee benefits	0	0	0	0	105 800	0	105 800
Reserve for the trademark use fee	0	0	0	0	95 000	0	95 000
<b>Total</b>	<b>41 659</b>	<b>293 945</b>	<b>41 659</b>	<b>293 945</b>	<b>529 054</b>	<b>55 117</b>	<b>767 882</b>

Having considered all the existing legal analyses and the results of the negotiations in existing legal disputes and having assessed all potential risks and current developments in legal disputes and in accordance with the inherent level of prudence, the management has decided to increase the amount of the non-tax deductible reserve by 150,000 thousand CZK to the total amount of 390,000 thousand CZK to cover potential expenses related to potential risks from business transactions.

As of 31<sup>st</sup> December 2011, management decided to make organisational changes according 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 in the plan at 110,365 thousand CZK.

The reserve for employee benefits includes employee entitlements to financial contributions upon reaching life jubilees, financial contributions upon retirement and the payment of treatment costs, including wage compensation, during wellness stays. The amount of the reserve has been calculated at 104,800 thousand CZK using an actuarial model. Refer to Note 3 for details of this model.

According to the current results of the ongoing negotiations with the parent company ČD, a.s. on the ownership of the trademark and the fee for the use of this trademark, the Company management decided to create a reserve for the trademark use fee for the 2011 reporting period at the amount of 95,000 thousand CZK.

#### 4.11. LONG-TERM PAYABLES

('000 CZK)	31 DEC 2011	31 DEC 2010
Long-term prepayments received	41 915	89 957
Issued bonds	2 000 000	0
Long-term supplier payables	541 857	1 092 116
<b>Total</b>	<b>2 583 772</b>	<b>1 182 073</b>

On 4<sup>th</sup> May 2011, the Czech National Bank approved the ČD Cargo, a.s. bond program by means of its Resolution no. 2011/4833/570, ref. no. Sp/2011/50/572. The maximum volume of the outstanding bonds issued under the bond program can amount to up to 6,000 million CZK with a bond program period of 10 years. The aforementioned resolution of the Czech National Bank took effect on 5<sup>th</sup> May 2011.

The following bond issues were issued under the bond program in 2011:

Manager	Komerční banka, a.s.
Date of issue	20 June 2011
Total nominal value	1,000,000,000 CZK
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	500,000,000 CZK
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	500,000,000 CZK
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

#### 4.12. SHORT-TERM PAYABLES

##### 4.12.1. Age of the short-term trade payables

PAYABLES / ('000 CZK)	TOTAL	BEFORE DUE DATE	PAST DUE DATE	0-90	91-180	181-365	366-730	OVER 730
31 Dec 2011	1 837 632	1 785 396	52 236	51 493	559	184	0	0
31 Dec 2010	2 532 439	2 497 269	35 170	34 201	147	809	13	0

##### 4.12.2. Intercompany Payables

#### ■ Short-term trade payables

NAME OF THE ENTITY / ('000 CZK)	BALANCE AT 31 DEC 2011	BALANCE AT 31 DEC 2010
České dráhy a.s.	248 647	329 204
ČD-Telematika, a.s.	12 631	85 635
ČDT-Infomační Systémy, a.s.	47 554	0
DPOV, a.s.	92 949	33 449
ČD travel, s.r.o.	3 504	2 040
Dopravní vzdělávací institut, a.s.	2 026	0
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
ČD Logistics, a.s.	997	1 312
RAILLEX, a.s.	0	27
BOHEMIAKOMBI, spol. s r.o.	0	0
Ostravská dopravní společnost, a.s.	9 798	12 738
CD Generalvertretung GmbH	34 204	225
CD-Generalvertretung Wien GmbH	7 916	0
Koleje Czeskie Sp. z o.o.	6 038	505
Generálne zastúpenie ČD Cargo, s.r.o.	13 656	786
<b>Total short-term payables</b>	<b>479 920</b>	<b>465 921</b>

**4.12.3. Other Payables**

As of 31<sup>st</sup> December 2011, the other payables primarily included a short-term portion of supplier payables at the amount of 687,207 thousand CZK.

**4.13. ESTIMATED PAYABLES**

The Company recognised the following estimated payables as of 31<sup>st</sup> December 2010 and 31<sup>st</sup> December 2011:

('000 CZK)	31 DEC 2011	31 DEC 2010
Unbilled non-investment supplies	144 833	104 526
Unbilled investment supplies	0	0
Other estimated payables (predominantly wagon repairs and leasing)	106 224	132 210
Expenses for border services	35 140	32 187
Estimated payables – ČD-T, a.s.	0	39
Estimated payables – ČD, a.s.	39 077	7 560
<b>Total estimated payables</b>	<b>325 274</b>	<b>276 522</b>

**4.14. BANK LOANS****4.14.1. Long-Term Bank Loans**

The Company used no long-term loans as of 31<sup>st</sup> December 2010 and 2011.

**4.14.2. Short-Term Bank Loans****■ Balance as of 31<sup>st</sup> December 2011**

BANK / ('000 CZK)	LOAN CURRENCY	BALANCE AT 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.	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
<b>Total</b>		<b>349 709</b>		

**■ Balance as of 31<sup>st</sup> December 2010**

BANK / (CZK '000)	LOAN CURRENCY	BALANCE AT 31 DEC 2010	INTEREST RATE	FORM OF COLLATERAL
Československá obchodní banka, a.s.	CZK	377 981	O/N Pribor+0,80 p.a.	No collateral
Komerční banka, a.s. – revolving	CZK	400 000	O/N Pribor+0,78 p.a.	No collateral
Komerční banka, a.s.	CZK	10 680	O/N Pribor+0,98 p.a.	No collateral
Všeobecná úvěrová banka, a.s.	CZK	317 613	O/N Pribor+0,65 p.a.	No collateral
ING Bank N. V.	CZK	164 794	O/N Pribor+0,38 p.a.	No collateral
Citi Bank Europe, plc	CZK	141 189	O/N Pribor+0,45 p.a.	No collateral
<b>Total</b>		<b>1 412 257</b>		

**4.14.3. Short-Term Financial Borrowings**

The Company issued debt bills on 13<sup>th</sup> July 2009. The total amount of these transactions was 813,117 thousand CZK. These debt bills were repaid during 2011.

**4.14.4. Strategy for funding the Company's further years****Lease-back**

With regard to the modernisation of the traction vehicles, the Company plans to use lease-back funding to convert the first 20 locomotives from the 163 series to the 363.5 series at an amount of 1,197 million CZK in 2012 and for 10 modernised 363.5 series locomotives with an acquisition cost of 598.5 million CZK in 2013.

**Bank loans for operations**

In order to fund its operating needs, ČD Cargo uses overdrafts and revolving credits provided by five banks at a maximum amount of 1.8 billion CZK. The increased competition between banks has enabled the Company to secure lower interest rates. The stratification of the lending to several financing entities has resulted in the risk of the termination of the funding being sufficiently diversified.

**Bill of exchange program**

This programme is not currently being used.

**Bonds**

With a view to securing mid-term and long-term sources of funding in order to increase the stability of the Company's cash flows, the relevant bodies at ČD Cargo have approved a bond program at a total amount of 6 billion CZK over 10 years. In 2011, three issues were gradually made with a total nominal value of 2 billion CZK and an issue of other bonds with a total nominal value of 1 billion CZK is anticipated for 2012. This form of funding reduces

the risk of a lack of liquidity arising from the option of applying termination periods to bank loans.

**Leasing**

The Company aims to arrange for leasing to become an achievable form of long-term funding in 2012 and in the following years in order to fulfil the strategic goal involving the long-term achievement of the required level of financial stability and the strengthening of the cash flow in relation to the insufficient numbers of long-term funding sources with regard to the existing and intended level of the acquisition of non-current assets.

**Summary**

The structure of the aforementioned funding has created the desired framework which allows the Company to maintain its financial stability with the option of making flexible use of the individual forms as deemed appropriate or necessary.

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

**4.15. DERIVATIVE FINANCIAL INSTRUMENTS**

('000 CZK)	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
<b>Total</b>	<b>2 975</b>	<b>-37 957</b>	<b>-34 982</b>

('000 CZK)	31 DEC 2011		
	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	TOTAL
Derivatives designated as fair value hedges	0	30 000	-30 000
Derivatives designated as cash flow hedges	47 568	164 913	-117 345
<b>Total</b>	<b>47 568</b>	<b>194 913</b>	<b>-147 345</b>

The Company used currency option strategies (a combination of purchased put options and sold call options) to hedge its foreign exchange rate losses arising from the strengthening of the Czech crown in 2010 and 2011.

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

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

The hedging was contracted with renowned banks. This hedging was concluded until December 2011.

At the end of 2011, the Company agreed on the hedging of foreign currency differences with three banks for 2012 in the form of a currency forward at a total monthly volume of 3,000,000 EUR (derivatives hedging cash flows).

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

- 30 lease transactions divided into three individual blocks with ten repayment schedules. The hedging was realised 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).
- The bond issue. The hedging was carried out with one bank in the IRS in one tranche. The hedging is effective from mid-2012 to the end of 2015 (trading derivatives).

**4.16. INCOME TAXATION****4.16.1. Deferred Tax**

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

**■ Deferred Tax Arising from**

('000 CZK)	BALANCE AT 31 DEC 2011	BALANCE AT 31 DEC 2010
Net book value of fixed assets	-708 564	-633 637
of which the impact of components	-159 473	-103 736
Provisions against fixed assets	21 133	6 564
Contractual fines and penalty	-13 775	-2 566
Receivables	5 015	5 702
Reserves	145 708	55 849
Tax loss	20 906	118 213
Derivatives	6 980	27 996
<b>Total</b>	<b>-522 597</b>	<b>-421 879</b>

ANALYSIS OF MOVEMENTS / ('000 CZK)	
<b>1 Jan 2011</b>	<b>421 879</b>
Current changes charged against the profit and loss account	79 703
– From current activities	120 584
– From extraordinary activities	-40 881
<b>Total charges against the profit and loss account</b>	<b>79 703</b>
Current changes recognised in equity	21 015
<b>Total recognised in equity</b>	<b>21 015</b>
<b>31 Dec 2011</b>	<b>522 597</b>

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

#### 4.17. DUE PAYABLES ARISING FROM SOCIAL SECURITY AND HEALTH INSURANCE CONTRIBUTIONS AND TAX ARREARS

The balance of the due payables arising from social security contributions and contributions to the state's employment policy was 83,200 thousand CZK and 87,499 thousand CZK as of 31<sup>st</sup> December 2011 and 31<sup>st</sup> December 2010 respectively.

The balance of the due payables arising from public health insurance contributions was 35,733 thousand CZK and 37,733 thousand CZK as of 31<sup>st</sup> December 2011 and 31<sup>st</sup> December 2010 respectively.

The Company has no records of tax arrears due to the local taxation authorities.

#### 4.18. INCOME DETAILS BY PRINCIPAL ACTIVITY

##### ■ Year Ending 31<sup>st</sup> December 2011

('000 CZK)	INLAND	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
<b>Total</b>	<b>7 916 669</b>	<b>6 487 348</b>	<b>14 404 017</b>

##### ■ Year Ending 31<sup>st</sup> December 2010

('000 CZK)	INLAND	CROSS-BORDER	TOTAL
Sales of freight transportation	6 902 912	5 133 756	12 036 668
Other sales of freight transportation	978 134	937 972	1 916 106
Sales of other services	0	168 143	168 143
<b>Total</b>	<b>7 881 046</b>	<b>6 239 871</b>	<b>14 120 917</b>

The classification of the cross-border and inland sales has been made to reflect the outputs. Cross-border sales include the Company's share of the income from the international transportation of goods, border services and received leasing payments for the operation of wagons in foreign countries.

#### 4.18.1. Income Generated with Related Parties

##### ■ Year Ending 31<sup>st</sup> December 2011

ENTITY / ('000 CZK)	RELATION TO THE COMPANY	TANGIBLE FIXED ASSETS	SERVICES	OTHER INCOME	FIN. INCOME	TOTAL
ČD-Telematika, a.s.	Fellow subsidiary	0	0	112	0	112
ČDT-Informační Systémy, a.s.	Fellow subsidiary	0	0	0	0	0
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	0	4 200	0	4 200
DPOV, a.s.	Fellow subsidiary	0	44	22 405	287	22 736
ČD, a.s.	Parent company	87	1 277	25 630	2 728	29 722
ČD Generalvertretung GmbH	Subsidiary	0	0	167 978	1	167 979
ČD-Generalvertretung Wien GmbH	Subsidiary	0	0	90	0	90
Koleje Czeskie Sp. z o.o.	Subsidiary	6 615	0	148 422	61	155 098
Generálne zastúpenie ČD Cargo, s.r.o.	Subsidiary	0	0	1 991	0	1 991
ČD Logistics, a.s.	Subsidiary	20	0	591 821	324	592 165
Smíchov Statiton Development, a.s.	Fellow subsidiary	0	0	0	0	0
Žižkov Statiton Development, a.s.	Fellow subsidiary	0	0	0	0	0
Centrum Holešovice, a.s.	Fellow subsidiary	0	0	0	0	0
Other*		0	0	0	0	0
<b>Total</b>		<b>6 722</b>	<b>1 321</b>	<b>962 649</b>	<b>3 401</b>	<b>974 093</b>

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

##### ■ Year Ending 31<sup>st</sup> December 2010

ENTITY / ('000 CZK)	RELATION TO THE COMPANY	TANGIBLE FIXED ASSETS	SERVICES	OTHER INCOME	TOTAL
ČD-Telematika, a.s.	Fellow subsidiary	0	127	0	127
Traťová strojná společnost, a.s.	Fellow subsidiary	0	2 505	0	2 505
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	1 211	0	1 211
DPOV, a.s.	Fellow subsidiary	97	26 872	111	27 080
ČD a.s.	Parent company	1 349	28 256	5 559	35 164
Other*		0	0	0	0
<b>Celkem</b>		<b>1 446</b>	<b>58 971</b>	<b>5 670</b>	<b>66 087</b>

\*) "Other" includes certain companies that are not included in the České dráhy consolidation group, ie Dopravní vzdělávací institut, a.s.

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

**4.18.2. Purchases from Related Parties****■ Year Ending 31<sup>st</sup> December 2011**

ENTITY / ('000 CZK)	RELATION TO THE COMPANY	ASSETS	MATERIAL	SERVICES	OTHER EXPENSES	TOTAL
ČD-Telematika, a.s.	Fellow subsidiary	4 451	913	44 545	0	49 909
ČDT-Infračenní 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 company	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	836	0	15 541	0	16 377
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 Statiton Development, a.s.	Fellow subsidiary	0	0	0	0	0
Žižkov Statiton 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
<b>Total</b>		<b>156 938</b>	<b>752 648</b>	<b>1 659 539</b>	<b>703</b>	<b>2 569 828</b>

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

**■ Year Ending 31<sup>st</sup> December 2010**

ENTITY / ('000 CZK)	RELATION TO THE COMPANY	MATERIAL	SERVICES	OTHER EXPENSES	TOTAL
ČD-Telematika, a.s.	Fellow subsidiary	3 800	126 881	0	130 681
Traťová strojná společnost, a.s.	Fellow subsidiary	0	471	0	471
Výzkumný Ústav Železniční, a.s.	Fellow subsidiary	0	0	0	0
DPOV, a.s.	Fellow subsidiary	1 004	62 144	0	63 148
ČD, a.s.	Parent company	758 127	1 431 067	10 020	2 199 214
Other*		70	41 488	0	41 558
<b>Total</b>		<b>763 001</b>	<b>1 662 051</b>	<b>10 020</b>	<b>2 435 072</b>

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

**4.18.3. Purchases and sales of fixed assets and non-current financial assets with related parties****Sales**

In the year ending 31<sup>st</sup> December 2011, the Company sold tangible fixed assets to České dráhy, a.s. at the amount of 87 thousand CZK, to Koleje Czeskie, Sp. z o. o. at the amount of 6,615 thousand CZK and to ČD Logistics, a.s. at the amount of 20 thousand CZK.

**Purchases****■ Year Ending 31<sup>st</sup> December 2011**

ENTITY / ('000 CZK)	RELATION TO THE COMPANY	INTANGIBLE FA	TANGIBLE FA	TOTAL
ČD-Telematika, a.s.	Fellow subsidiary	5	4 446	4 451
ČDT-Infračenní 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 company	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 Statiton Development, a.s.	Fellow subsidiary	0	0	0
Žižkov Statiton Development, a.s.	Fellow subsidiary	0	0	0
Centrum Holešovice, a.s.	Fellow subsidiary	0	0	0
<b>Total</b>		<b>11 713</b>	<b>145 267</b>	<b>156 980</b>

**■ Year Ending 31<sup>st</sup> December 2010**

ENTITY / ('000 CZK)	RELATION TO THE COMPANY	INTANGIBLE FA	TANGIBLE FA	TOTAL
ČD, a.s.	Parent company	0	9 040	9 040
ČD-Telematika, a.s.	Fellow subsidiary	29 700	1 747	31 447
Traťová strojná společnost, a.s.	Fellow subsidiary	0	0	0
DPOV, a.s.	Fellow subsidiary	0	101 097	101 097
<b>Total</b>		<b>29 700</b>	<b>111 884</b>	<b>141 584</b>

**4.19. CONSUMED PURCHASES**

(CZK'000)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Consumed material	423 661	438 971
Consumed energy	1 285 032	1 344 216
Consumed fuels	666 329	672 428
<b>Total consumed purchases</b>	<b>2 375 022</b>	<b>2 455 615</b>

Consumed energy in the year ending 31<sup>st</sup> December 2011 includes consumed traction energy purchased from České dráhy, a.s. at the amount of 1,179,633 thousand CZK. Consumed energy in the year ending 31<sup>st</sup> December 2010 includes consumed traction energy purchased from České dráhy, a.s. at the amount of 1,229,619 thousand CZK.

**4.20. SERVICES**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Repairs and maintenance	280 525	399 770
Travel expenses	44 326	43 762
Representation costs	2 923	3 087
Telecommunication, data and postal services	142 423	141 317
Other rental	145 453	140 438
Use of the railway route, operations control	2 343 038	2 555 241
Lease for wagons	720 111	839 570
Lease for motor vehicles	2 148	3 148
Transportation fee	721 854	445 041
Costs of general representation	69 404	61 898
Lease	717 298	668 522
Border services	178 853	173 715
Promotion, advertising	79 067	199 401
Healthcare	31 809	36 197
Other services	427 056	323 860
<b>Total</b>	<b>5 906 288</b>	<b>6 034 967</b>

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**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Depreciation of intangible and tangible fixed assets	844 006	736 800
Amortisation of a positive valuation difference on acquired assets	374 094	374 094
<b>Total depreciation</b>	<b>1 218 100</b>	<b>1 110 894</b>

**4.22. OTHER OPERATING INCOME**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Claims for damages	26 544	80 048
Subsidies – accompanying social program	23 000	59 000
Gain of material	21 136	6 144
Sundry operating income	112 844	131 057
<b>Total</b>	<b>183 524</b>	<b>276 249</b>

Claims for damages also include any income arising from compensation for the increased costs incurred as a result of line closures caused by SŽDC, s.o. This income from the compensation for the increased costs incurred due to line closures amounted to 23,066 thousand CZK and 41,032 thousand CZK in the years ending 31<sup>st</sup> December 2011 and 2010 respectively. The total income arising from the compensation for the increased costs incurred due to line closures amounted to 150,098 thousand CZK from 1<sup>st</sup> December 2007 to 31<sup>st</sup> December 2011.

**4.23. OTHER OPERATING EXPENSES**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Uniforms and lump sum payments to employees	5 769	5 927
Insurance payments	49 281	54 225
Compensation of damage	57 661	13 981
Membership fees	1 899	14 214
Sundry operating expenses	16 223	75 037
<b>Total</b>	<b>130 833</b>	<b>163 384</b>

**4.24. INCOME FROM NON-CURRENT FINANCIAL ASSETS**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Profit shares	15 850	4 886
<b>Total</b>	<b>15 850</b>	<b>4 886</b>

**4.25. INTEREST INCOME**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Interest on current bank accounts	424	330
Interest taxed using a special tax rate	1	0
Other interest received from other debtors	1 443	2 887
<b>Total</b>	<b>1 868</b>	<b>3 217</b>

**4.26. OTHER FINANCIAL INCOME**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Foreign exchange rate gains	173 636	162 146
<b>Total</b>	<b>173 636</b>	<b>162 146</b>

**4.27. OTHER FINANCIAL EXPENSES**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Foreign exchange rate losses	144 314	202 623
Sundry financial expenses	5 208	3 637
<b>Total</b>	<b>149 522</b>	<b>206 260</b>

**4.28. EXTRAORDINARY EXPENSES**

('000 CZK)	YEAR ENDING 31 <sup>ST</sup> DEC 2011	YEAR ENDING 31 <sup>ST</sup> DEC 2010
Recognition of the reserve for employee benefits	110 366	0
Recognition of the reserve for restructuring	104 800	0
<b>Total</b>	<b>215 166</b>	<b>0</b>

For detailed comments on the recognition of reserves – refer to Note 3.10.

**4.29. STAFF COSTS AND THE NUMBERS OF EMPLOYEES**

The following table summarises the average number of the Company's employees and managers for the year ending 31<sup>st</sup> December 2011.

('000 CZK)	NUMBER	PAYROLL COSTS	SOCIAL SECURITY AND HEALTH INSURANCE *	OTHER STAFF COSTS	BONUS FOR THE MEMBERS OF STATUTORY BODIES	CONTRIBUTION TO CAPITAL LIFE INSURANCE	CONTRIBUTION TO 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
<b>Total</b>	<b>9 206</b>	<b>3 075 953</b>	<b>1 052 450</b>	<b>118 777</b>	<b>15 908</b>	<b>67 765</b>	<b>100 666</b>	<b>4 431 519</b>

\* ) 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 ending 31<sup>st</sup> December 2010:

('000 CZK)	NUMBER	PAYROLL COSTS	SOCIAL SECURITY AND HEALTH INSURANCE *	OTHER STAFF COSTS	OBONUS FOR THE MEMBERS OF STATUTORY BODIES	CONTRIBUTION TO CAPITAL LIFE INSURANCE	CONTRIBUTION TO PENSION INSURANCE	TOTAL STAFF COSTS
Employees	9 535	3 105 373	1 059 755	232 597	0	71 070	102 552	4 571 347
Managers	38	94 014	22 449	11 562	6 839	169	196	135 229
<b>Total</b>	<b>9 573</b>	<b>3 199 387</b>	<b>1 082 204</b>	<b>244 159</b>	<b>6 839</b>	<b>71 239</b>	<b>102 748</b>	<b>4 706 577</b>

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

The members of the statutory, supervisory and administrative bodies were not provided with any discounted fares. The Company management has the option of using benefits in kind in the form of Company cars for private use.

## 5. Off Balance Sheet Commitments

### BANK GUARANTEES

Bank guarantees as of 31<sup>st</sup> December 2011 issued by Komerční banka, a.s. from the liability limit of 50 million CZK.

BANK GUARANTEE IN FAVOUR OF	TYPE OF GUARANTEE	AMOUNT	CURRENCY	UNTIL	NOTE
WestInvest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Praha 7, Holešovice, IČ 26178338	Lease guarantee	207.000,--	EUR	26 Feb 2012	Bank guarantee for the compliance with all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
WestInvest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Praha 7, Holešovice, IČ 26178338	Lease guarantee	3.780,--	EUR	26 Feb 2012	Bank guarantee for the compliance with all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
WestInvest Waterfront Towers s.r.o., Jankovcova 1569/2c, 170 00 Praha 7, Holešovice, IČ 26178338	Lease guarantee	577,40	EUR	28 Jan 2012	Bank guarantee for the compliance with all liabilities and obligations of the Lessee arising from the Lease Contract with WestInvest Waterfront Towers s.r.o. - Lighthouse.
HYPARKOS, s.r.o., Škrétova 490/12, 120 00 Praha 2, IČ 27626130	Lease guarantee	16.517.056,--	CZK	30 June 2012	Bank guarantee for the event that ČD Cargo will not comply with the obligations stipulated by the Contract for the Lease of Buildings and Land in the Logistics Centre in Lovosice.

On 19<sup>th</sup> January 2011, the Company entered into a Framework Contract for the Provision of Financial Services with Komerční banka, a.s. The total amount of the approved liability limit is 50 million CZK

## 6. Post Balance Sheet Events

The Board of Trustees at ČD Cargo, a.s. elected Mr Vít Veselý as the Chairman of the Company's Board of Trustees at its 26<sup>th</sup> meeting held on 14<sup>th</sup> February 2012.

## 15 Significant Subsequent Events

As part of the bond program, ČD Cargo, a.s. issued two tranches of the third bond issue with a total nominal value of 500,000 thousand CZK. The administrator of both issues was ČSOB, a.s.

The Board of Trustees at ČD Cargo, a.s. elected Mr Vít Veselý as the Chairman of the Company's Board of Trustees at its 26<sup>th</sup> meeting held on 14<sup>th</sup> February 2012.

On 24<sup>th</sup> April 2012, the sole shareholder acting in the capacity of the General Meeting of ČD Cargo, a.s. decided to dismiss the members of the Board of Directors Jan Vlasák and Sonny Sonnberger and to appoint Roman Vallovič as a member of the Board of Directors effective as of 24<sup>th</sup> April 2012. In addition, the sole shareholder also decided to change the Articles of Association of ČD Cargo, a.s. effective as of 24<sup>th</sup> April 2012. This resulted in, amongst other things, a reduction of the number of members in the Board of Directors from four to three.

## 16 Report on transactions with associated entities

The report of the Company's statutory body on the relations between Associated entities prepared in accordance with the provisions of section 66a) (9) of the Commercial Code no. 513/1991 Coll., as amended.

The Board of Directors at ČD Cargo, a.s. has prepared this report for the reporting period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011 in compliance with section 66a) (9) of Act no. 513/1991 Coll., as amended.

The accuracy of the data provided in this report is subject to an audit by an independent auditor. The report has been appended to the Annual Report and the Board of Directors will ensure its inclusion in the collection of documents held by the relevant Commercial Court.

### ARTICLE I.

#### The controlled and controlling entity

1) The controlled entity:

Entity: ČD Cargo, a. s.  
Registered office: Jankovcova 1569/2c, Prague 7, Holešovice, 170 00  
Company Registration Number: 281 96 678  
Entered in Section B, Insert 12844 of the Commercial Register Held at the Commercial Court in Prague

Jiří Vodička, the Chairman of the Board of Directors – prior to 21<sup>st</sup> June 2011  
Gustav Slamečka, the Chairman of the Board of Directors – since 23<sup>rd</sup> June 2011  
Milan Matzenauer, a member of the Board of Directors – prior to 23<sup>rd</sup> August 2011  
Jiří Špička, a member of the Board of Directors  
Jan Vlasák, a member of the Board of Directors – since 21<sup>st</sup> June 2011  
Sonny Sonnberger, a member of the Board of Directors – since 23<sup>rd</sup> August 2011

(hereafter simply referred to as the "Controlled Entity")

2) The controlling entity:

Entity: České dráhy, a.s.,  
Registered office: Nábřeží L. Svobody 1222, Prague 1, 110 15,  
Company Registration Number: 709 94 226  
Entered in Section B, Insert 8039 of the Commercial Register held at the Municipal Court in Prague

Petr Žaluda, the Chairman of the Board of Directors  
Milan Matzenauer, the Chairman of the Board of Directors prior to 9<sup>th</sup> November 2011  
Jiří Kolář, a member of the Board of Directors  
Michal Nebeský, a member of the Board of Directors  
Antonín Blažek, a member of the Board of Directors prior to 9<sup>th</sup> November 2011  
Vladimír Bail, the first Vice-Chairman of the Board of Directors since 9<sup>th</sup> November 2011  
Ctirad Nečas, a member of the Board of Directors since 9<sup>th</sup> November 2011

(hereafter simply referred to as the "Controlling Entity")

### ARTICLE II.

#### The entities controlled by the controlling entity – affiliated entities

- ČD Cargo, a.s., registered office: Jankovcova 1569/2c, Prague 7, Holešovice, 170 00, Company Registration Number: 28196678, entered in Section B, Insert 12844 of the Commercial Register held at the Municipal Court in Prague
- ČD – Telematika a.s., registered office: Pernerova 2819/2a, Prague 3, 130 00, Company Registration Number: 61459445, entered in Section B, Insert 8938 of the Commercial Register held at the Municipal Court in Prague
- ČDT-Infračenní Systémy, a.s., registered office: Pernerova 2819/2a, Prague 3, Žižkov, 130 00, Company Registration Number: 24829871, entered in Section B, Insert 17064 of the Commercial Register held at the Municipal Court in Prague
- ČD Reality a.s., registered office: Václavkova 169/1, Prague 6, Dejvice, 160 00, Company Registration Number: 27195872, entered in Section B, Insert 9656 of the Commercial Register held at the Municipal Court in Prague
- ČD travel, s.r.o., registered office: Na Příkopě 988/31, Prague 1, 110 00, Company Registration Number: 27364976, entered in Section C, Insert 108644 of the Commercial Register held at the Municipal Court in Prague
- Dopravní vzdělávací institut, a.s. registered office: Husitská 42/22, Prague 3 - Žižkov, 130 00 (hereafter simply referred to as "DVI"), Company Registration Number: 27378225, entered in Section B, Insert 10168 of the Commercial Register held at the Municipal Court in Prague

- DPOV, a.s., registered office: Husova 635/1b, Přerov, 751 52, Company Registration Number: 27786331, entered in Section B, Insert 3147 of the Commercial Register held at the Regional Court in Ostrava
- RailReal a.s., registered office: Olšanská 1a, Prague 3, 130 00, Company Registration Number: 26416581, entered in Section B, Insert 6888 of the Commercial Register held at the Municipal Court in Prague
- RAILREKLAM, spol. s r.o., registered office: Klimentská 36/1652, Prague 1, 110 00, Company Registration Number: 17047234, entered in Section C, Insert 2041 of the Commercial Register held at the Municipal Court in Prague
- Smíchov Station Development, a.s., registered office: Ke Štvanici 656/3, Karlín, Prague 8, 18600, Company Registration Number: 27244164, entered in Section B, Insert 9949 of the Commercial Register held at the Municipal Court in Prague
- Výzkumný Ústav Železniční, a.s., registered office: Novodvorská 1698, Prague 4, Braník, 142 01, Company Registration Number: 27257258, entered in Section B, Insert 10025 of the Commercial Register held at the Municipal Court in Prague
- Centrum Holešovice a.s., registered office: Revoluční 767/25, Prague 1, 110 00, Company Registration Number: 27892646, entered in Section B, Insert 11830 of the Commercial Register held at the Municipal Court in Prague

- Žižkov Station Development, a.s., registered office: Ke Štvanici 656/3, Prague 8, 186 00, Company Registration Number: 28209915, entered in Section B, Insert 13233 of the Commercial Register held at the Municipal Court in Prague

(The controlled entity, the controlling entity and other entities controlled by the controlling entity are hereafter simply referred to as "affiliated entities".)

### ARTICLE III.

#### The reporting period:

This report has been prepared for the reporting period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011.

### ARTICLE IV.

#### The contracts and agreements concluded by the affiliated entities:

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

NAME OF THE PARTNER COMPANY:	NUMBER OF CONTRACTS CONCLUDED DURING THE REPORTING PERIOD				TOTAL
	CONTRACT FOR WORK PURCHASE	PURCHASE	RENTAL	OTHER	
Centrum Holešovice, a.s.	0	0	0	0	0
ČDT-Infračenní Systémy, a.s.	12	0	0	8	20
České dráhy a.s.	1	5	17	29	52
ČD – Telematika, a.s.	2	0	0	0	2
ČD Reality, a.s.	0	0	0	0	0
ČD travel, s.r.o.	0	1	0	0	1
Dopravní vzdělávací institut, a.s.	0	0	0	3	3
DPOV, a.s.	17	0	1	7	25
RailReal a.s.	0	0	0	0	0
RAILREKLAM, spol. s r.o.	0	0	0	0	0
Smíchov Station Development, a.s.	0	0	0	0	0
Výzkumný Ústav Železniční, a.s.	0	0	3	0	3
Žižkov Station Development, a.s.	0	0	0	0	0
<b>TOTAL</b>	<b>32</b>	<b>6</b>	<b>21</b>	<b>47</b>	<b>106</b>

The individual sales generated and costs incurred with the individual affiliated entities during the reporting period were as follows:

NAME OF THE PARTNER COMPANY:	ČD CARGO, A.S. SALES IN THOUSANDS OF CZK	ČD CARGO, A.S. PURCHASES IN THOUSANDS OF CZK
Centrum Holešovice, a.s.	0	0
ČDT-Infomační Systémy, a.s.	0	94 119
České dráhy a.s.	29 722	2 107 480
ČD-Telematika, a.s.	112	49 909
ČD Reality, a.s.	0	0
ČD travel, s.r.o.	0	21 841
Dopravní vzdělávací institut, a.s.	0	20 844
DPOV, a.s.	22 736	179 520
RailReal a.s.	0	0
RAILREKLAM, spol. s r.o.	0	0
Smíchov Station Development, a.s.	0	0
Výzkumný Ústav Železniční, a.s.	4 200	648
Žižkov Station Development, a.s.	0	0
<b>TOTAL</b>		

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

#### ARTICLE V.

##### Other legal acts realised between the affiliated entities:

The controlled entity suffered no detriment in the reporting period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011:

- in connection with the contracts and agreements concluded between the controlled entity and the controlling entity or any other affiliated entities, upon the basis of which any consideration was provided or received, during the reporting period;
- in connection with the provision or receipt of any consideration in the reporting period according to the valid and effective contracts and agreements concluded between the controlled entity and the controlling entity or any other affiliated entities prior to 1<sup>st</sup> January 2011;
- no legal acts were realised between the controlled entity and the controlling entity or any other affiliated entities in the interests or at the initiative of the controlling entity or any other affiliated entity in the reporting period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011; and
- no measures were taken or implemented by the controlled entity in the interests or at the initiative of the controlling or any other affiliated entity which led to any detriment, benefit, advantage or disadvantage.

Other than the common legal acts, no legal acts were realised by the controlled entity in the interests of any other affiliated entity during the reporting period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011.

#### ARTICLE VI.

##### Measures between the affiliated entities:

During the reporting period from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2011, no measures were taken by the controlled entity in the interests or at the initiative of any other affiliated entity other than common measures implemented by the controlling entity in relation to the controlled entity in its capacity as the shareholder. All contracted considerations provided or received by the controlled entity (which prepared this report) were offset by contracted payments. These payments were contracted with volumes, places and times similar to common practice and at arm's length and no advantages or disadvantages were provided. The controlled entity suffered no detriment from the concluded contracts or from any other legal acts or measures between the affiliated entities according to Section 66a (8) of the Commercial Code.

#### ARTICLE VII.

##### Confidentiality of Information:

Confidential information within the group includes the information and facts which constitute part of the trade secrets of the affiliated entities and information described as confidential by any affiliated entity. Confidential information further comprises all commercial information which could cause detriment to any of the affiliated entities either in itself or in connection with other information or facts. In order to avoid causing detriment to the controlled entity, the report from the controlled entity's statutory body does not include a detailed breakdown of the aforementioned items.

#### ARTICLE VIII.

##### Conclusion:

This report has been prepared by the statutory body of the controlled entity, ČD Cargo, a.s., and presented to the auditor who audits the financial statements according to specific legislation. The report will be filed in the collection of documents maintained by the Commercial Register held by the Municipal Court in Prague.

The signature of the Chairman of the Board of Directors of the controlled entity ČD Cargo, a.s.:

In Prague on 21<sup>st</sup> March 2012



Gustav Slamečka  
Chairman of the Board of Directors

## 17 Statement of the Board of Directors

No need for the Company's Board to respond to the auditor's statement had arisen as of the date of presentation of the material to be approved by the Company's statutory authority.

## 18 List of abbreviations

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

## 19 Identification and contact details

**Trading name:** ČD Cargo, a.s.  
**Registered office:** Prague 7, Holešovice, Jankovcova 1569/2c, 170 00  
**Company Registration Number:** 281 96 678  
**Company VAT Number:** CZ 281 96 678  
**Register Court:** Prague  
**File no.:** Section B, Insert 12844  
**Telefon:** +420 9722 42 100  
**Fax:** +420 9722 42 101  
**Email:** [press@cdcargo.cz](mailto:press@cdcargo.cz)  
**http:** [www.cdcargo.cz](http://www.cdcargo.cz)

### CUSTOMER INFOLINE:

**Telephone:** +420 9722 42 255  
**Fax:** +420 9722 42 103  
**Email:** [info@cdcargo.cz](mailto:info@cdcargo.cz)



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