



Správa železniční dopravní cesty

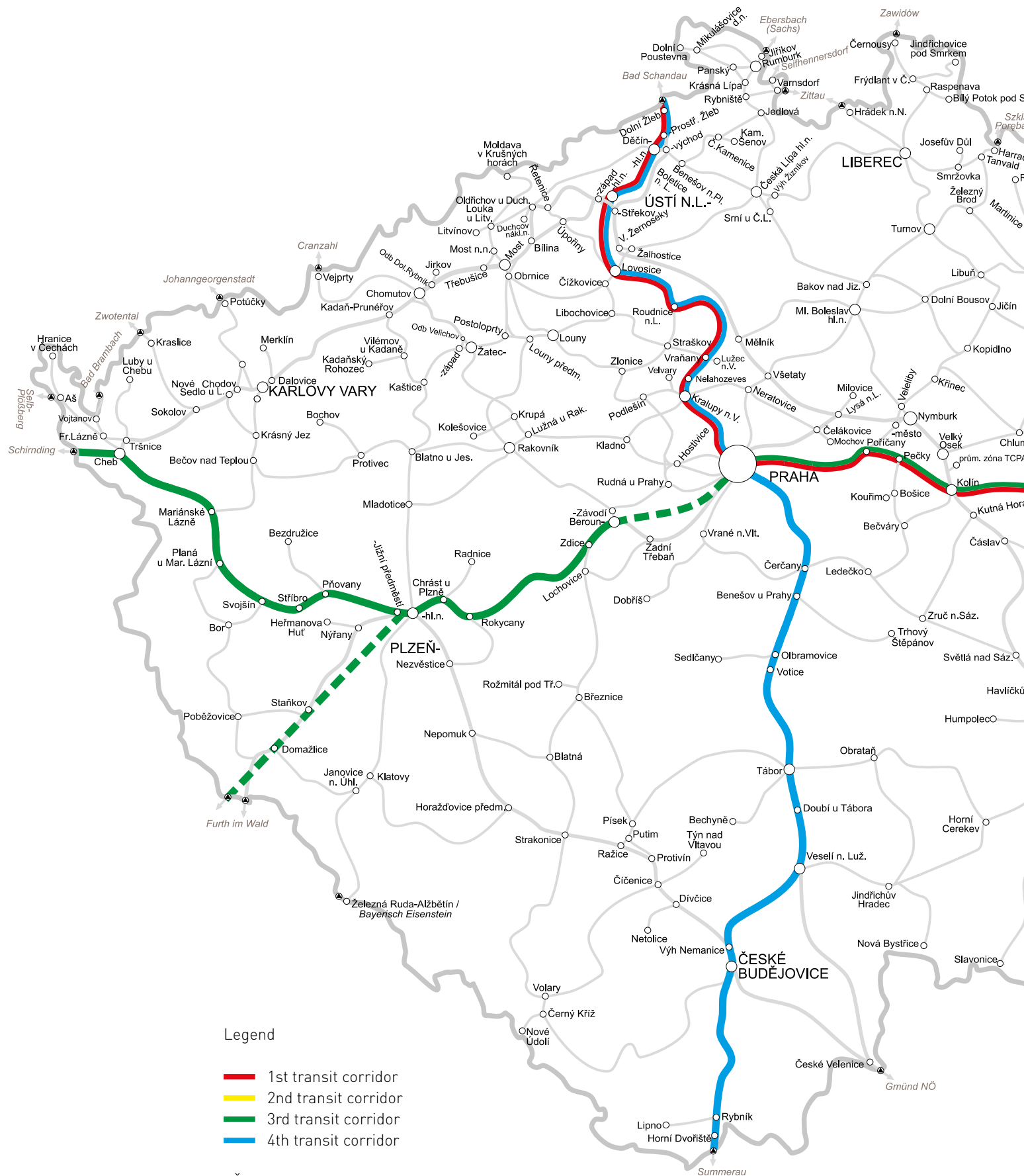
We build on traditions,  
we create the future

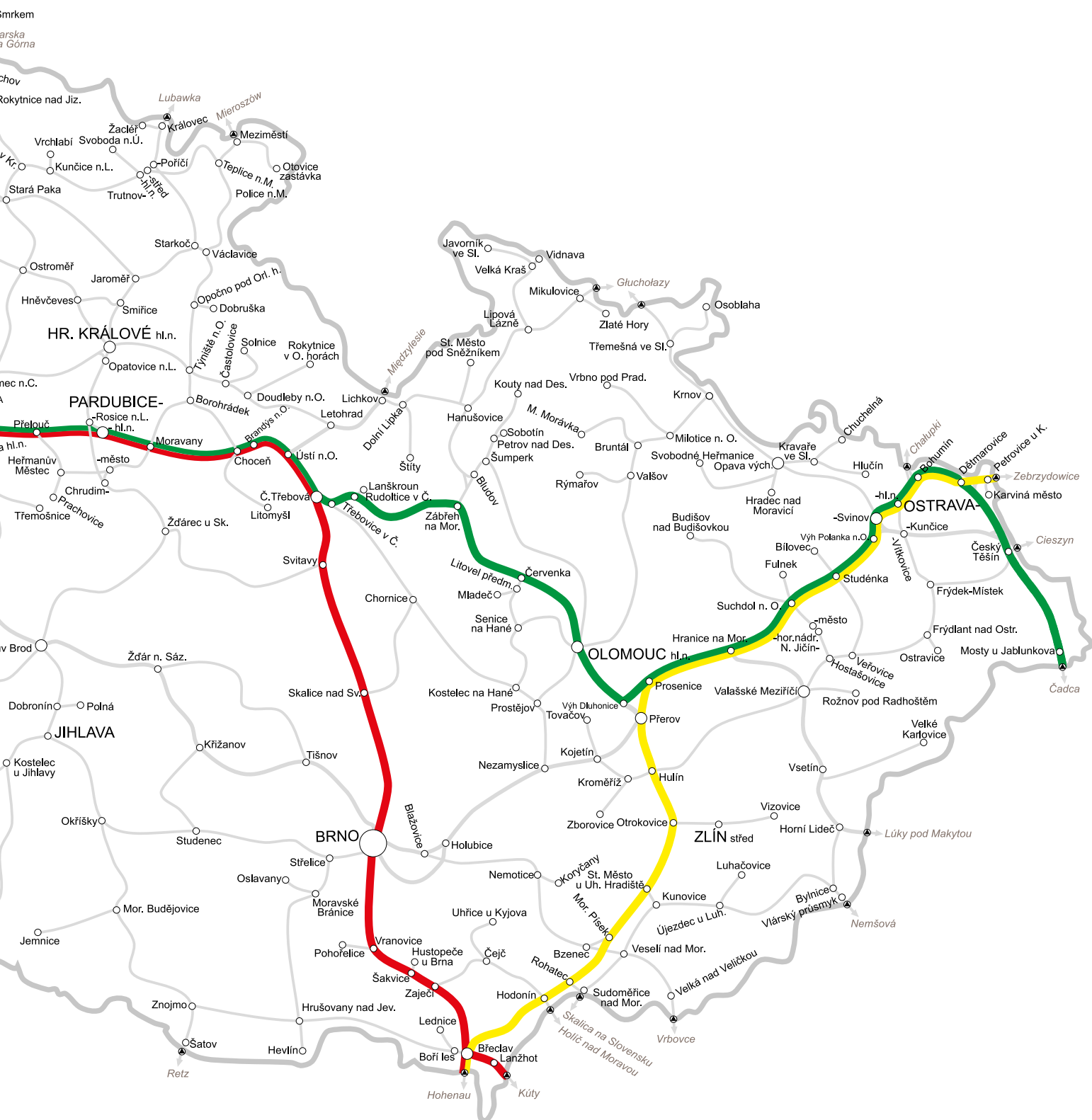
ANNUAL REPORT 2010



# RAILWAY NETWORK OF THE CZECH REPUBLIC

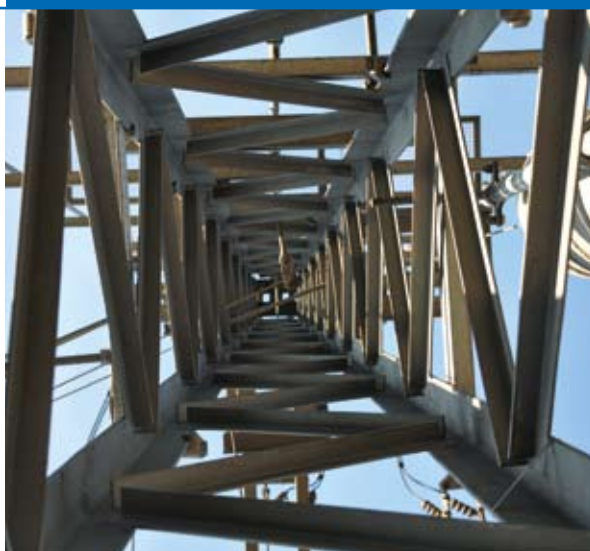
## Railway transit corridors





## BASIC CHARACTERISTICS OF SŽDC'S RAILWAY NETWORK:

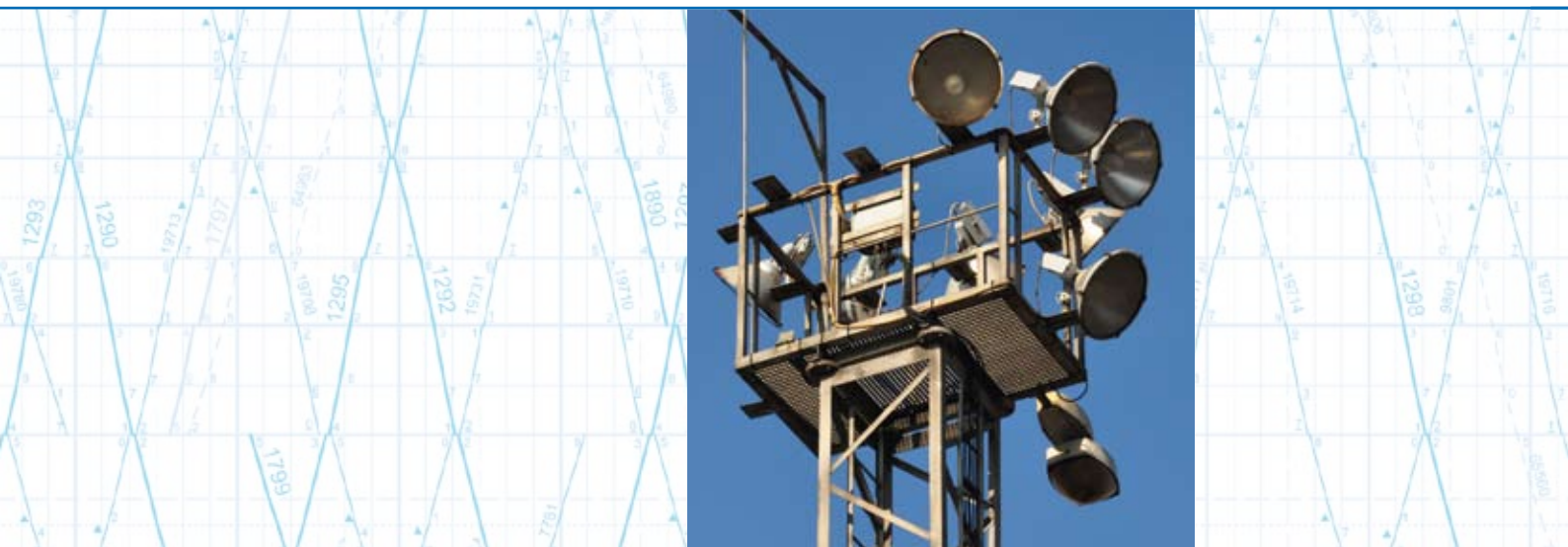
Indicator	Unit of measurement	Amount
Total length of tracks	km	9,469
Length of electrified tracks	km	3,210
Length of standard-gauge tracks	km	9,446
Length of narrow-gauge tracks	km	23
Length of single-track lines	km	7,563
Length of double and multiple-track lines	km	1,906
Total construction length of tracks	km	15,566
Number of switch units	s. u.	24,721
Bridges	number	6,731
Tunnels	number	156
Total length of bridges	m	151,435
Total length of tunnels	m	42,441



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The closing date of this annual report is 25 May 2011.





# I. COMPANY PROFILE

The Railway Infrastructure Administration, state organization, was established as of 1 January 2003 pursuant to Act No. 77/2002 Coll., on the Czech Railways, joint-stock company, the Railway Infrastructure Administration, state organization, and on the Amendment to Railway Act No. 266/1994 Coll., as amended, and Act No. 77/1997 Coll., on the State Enterprise, as amended (hereinafter referred to as the "Transformation Act"), as one of two legal successors to the Czech Railways, state organization.

## **manages**

- state-owned assets representing the railway infrastructure
- assets listed in the Amendment to the Transformation Act
- defined payables and receivables of the former Czech Railways, state organization, arisen as at 31 December 2002

and **carries out** business activity in accordance with the Trade Licence Act.

## Scope of operations

Pursuant to applicable legal regulations, the Railway Infrastructure Administration, state organization (hereinafter referred to as "SŽDC") fulfils the function of a rail owner and operator.

### **SŽDC provides**

- operation of the railway infrastructure
- operability of the railway infrastructure
- maintenance and repair service of the railway infrastructure
- modernization and development of the railway infrastructure
- preparation of documents related to public service obligations,
- supervision of the railway infrastructure utilization, of the rail operation and operability,

## Railway Superstructure

The Railway superstructure represents a carriageway which carries and guides rail vehicles

- 1 elastic baseplateless rail fastening on concrete sleepers
- 2 gridiron (track development of switches)
- 3 double-track railway line with fixed carriageway



## II. OPENING STATEMENT

Dear business partners and colleagues,

You have received the Annual Report of our organization; a publication in a format more likely to be expected from a private joint-stock company than from an institution of a unique and most unusual legal form of state organization. We, who work for the Railway Infrastructure Administration, believe that the form itself does not necessarily reveal how dynamic and productive the firm is or whether it is capable of making the right management decisions or providing services. The legal form is only a form indeed. Its true nature is always represented by real people, their skills, ideas, style and self-confidence.

In recent years, the economy of our country has been through a difficult period. The national budget is mired in problems which eventually lead to one end – the government and other state authorities are trying to enforce savings and to reduce expenditures.

SŽDC cannot stand aside from this process. As an important investor authorized by the government to make cost-efficient investments in the maintenance and the development of the railway infrastructure, we have had tremendous responsibility since our company was established. However, now the pressure has grown and intensified. As a result of a decreasing amount of available funding, it is necessary to be prudent about the remaining

financial means and to carefully consider spending every single crown.

In the last few months, we have taken a number of relevant measures. Some of them can be seen better and their impact is immediate; plenty of others are less visible or their effect will become apparent only in the future. Our strategic moves consist in making efficient investments and increasing savings. Savings of billions of Czech crowns that we have achieved by enforcing price reductions, re-evaluating the scope of some constructions and, increasingly, by minimizing the project range as well. It is most positive that the saved billions will not be taken away from the rail industry – they will be invested in other constructions that could not be otherwise financed. It means that for the same amount of money we will build more kilometres, purchase more signalling installations, and repair larger sections of the infrastructure. I personally am extremely pleased about that. I am equally pleased by the success of our project for the implementation of electronic auctions and related savings. We have cut costs in the area of central purchase of commodities and we have introduced electronic auctions as a standard tender mechanism.

More than twelve percent of the staff left our firm in the period from early 2010 to the end of March 2011. We were forced to cut labour costs and to increase efficiency of our operations, which could not be achieved without lay-offs.





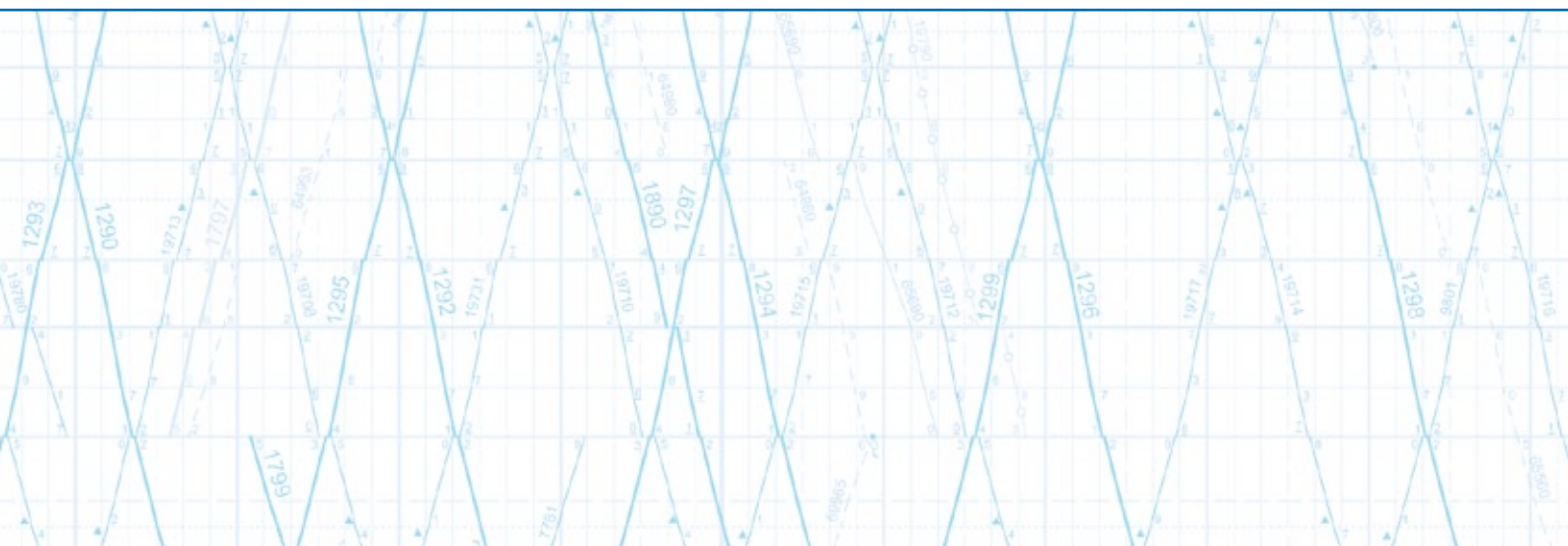
comparison of the volume of invested funding to the resulting benefits to transport services in terms of both the passenger and freight transport.

In 2011, by transferring certain staff numbers and functions from the Czech Railways to the Railway Infrastructure Administration, state organization, we will form a company that will represent completion of one phase of rail-related reforms. This firm – both in terms of investments, maintenance, safety and operation – shall ensure conditions allowing the involvement of fully competitive carriers on our rail. 2010 demonstrates there is a real chance for us to succeed.

I would like to express my thanks to all SŽDC's employees for the 2010 results, to the staff in managerial positions as well as in support structures - primarily, however, to thousands of those who are in charge of rail operability and safety. I want to assure all those who have left our company that it was not easy to make such decisions and that I and everybody else appreciate what they have done for our company.



Pavel Habarta  
Executive Director





**Adolf Jílek**  
Chairman of the  
Management Board

The year 2010, in particular its second half, saw essential management changes, as well as restructuring of the Management Board. Along with the personnel transformation, management tasks were defined more precisely for the past year. If I were to sum them up in two areas, the first area has been SŽDC's financial stabilization, re-evaluation of investments, and where possible, cost-cutting. The main goal of these efforts is savings, in line with the Government policy statement. The second task of the current management is to devise a long-term strategy for the company.

The management of the company accomplished progress in numerous areas, in particular:

- Cutting costs, where possible and rational, with no adverse impact on services provided to citizens,
- Rational and economical utilization of available funding,
- Higher labour productivity due to better organization, more effective services and enforcement of fair competition principles.

Last year, SŽDC's management launched an extensive transformation in the personnel area. More than one thousand employees left the company within 15 months, i.e. approximately every ninth one.

In evaluating the 2010 results of the Railway Infrastructure Administration, state organization, I am pleased to say that, as regards our railways, we have managed to save taxpayers' money,

as well as to work in a manner sufficiently transparent for the public. I can see the courage to reduce costs and the evident efforts to prevent these savings from affecting the quality of the provided services. In addition, we push for fair competition among the suppliers, through the system of electronic auctions and other means. Tenders also fully observe the specific conditions of each region and the requirements of the quality and professionalism of suppliers.

It is obvious that the management of the company has a clear and well-defined concept of the future development. The efforts to modernize SŽDC still continue. I have no doubt that they will be implemented. I expect the project for establishing a fully-fledged manager and operator of the contemporary Czech railways (operated by various carriers) to be successfully completed this year, followed by the completion of the related project, "Live infrastructure".

Adolf Jílek  
Chairman of the Management Board

## Signal

The basic element of the signalling system for visual information transmission to the engine driver

- 1 shunt signal with "Shunting not allowed" (in the photograph together with the collision sensor of electric switch heating)
- 2 track signal in the railway station Praha Masarykovo nádraží
- 3 shelters of switch lamps enhancing the visibility of the signal sign



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# III. CORPORATE GOVERNANCE

## Statutory body

### Director General

Jan Komárek (until 30 September 2010)

### 1st Deputy Director General, Executive Director

Pavel Habarta (since 1 October 2010)

### 2nd Deputy Director General

Bohuslav Navrátil

### Deputy Director General for Rail Operation

Jaromír Kadlec

### Deputy Director General for Rail Operability

Josef Novobilský

### Deputy Director General for Rail Modernization

Miroslav Konečný (until 30 November 2010);  
from 1 December 2010 until 31 March 2011 –  
position not filled

### Deputy Director General for Technical Services

Radek Vičar

### Deputy Director General for Economics

Vladimír Filip

### Deputy Director General for Asset Management

Zita Karasová (until 17 August 2010); since  
18 August 2010 – position not filled; as of  
1 November 2010 Vladimír Filip was assigned  
to run this division

### Deputy Director General for Human Resources

Zdeněk Jílek

## SŽDC Management

### Director General

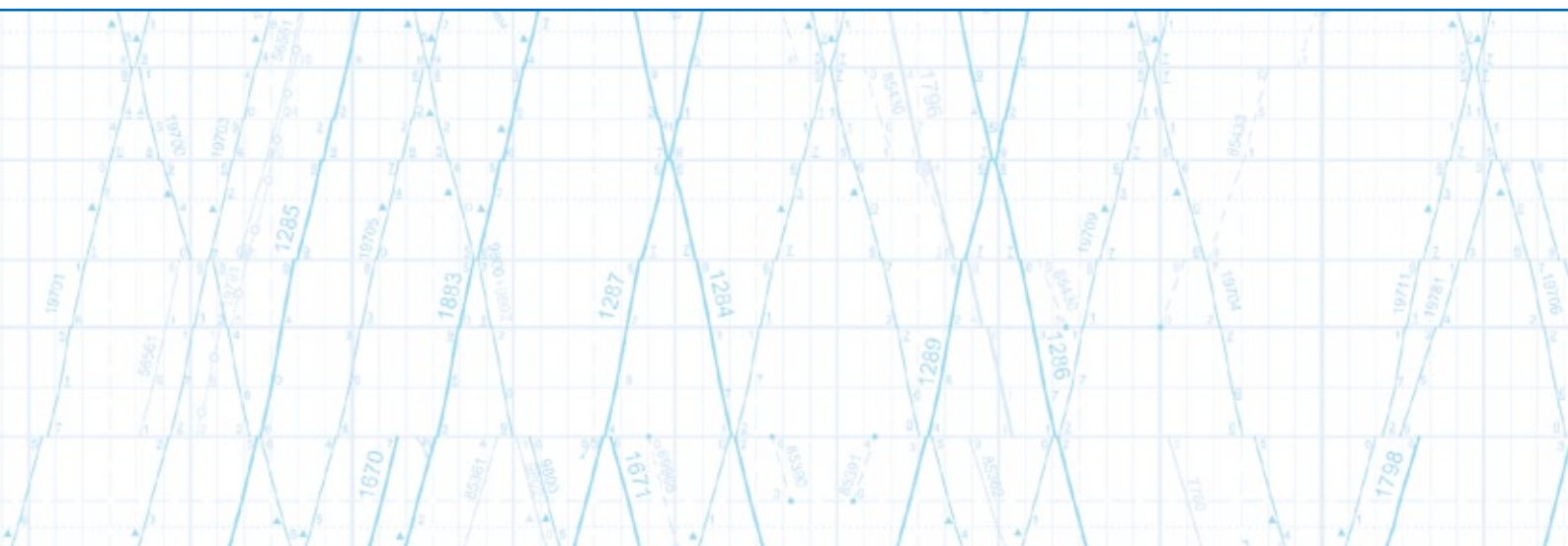
Jan Komárek (until 30 September 2010)

### 1st Deputy Director General, Executive Director (since 1 October 2010) and Deputy Director General for Audit (since 23 August 2010)

Pavel Habarta

### 2nd Deputy Director General and Deputy Director General for Strategy

Bohuslav Navrátil



## Management Board

### Chairman

Adolf Jílek

### Members

Ivan Adamec

Roman Jurečko

Vlastimil Aubrecht (until 10 November 2010)

Václav Janout (until 10 November 2010)

František Sivera (until 10 November 2010)

Josef Smýkal (until 10 November 2010)

Lukáš Hampl (since 11 November 2010)

Jakub Hodinář (since 11 November 2010)

Libor Joukl (since 11 November 2010)

Radim Vysloužil (since 11 November 2010)

## Audit Committee

Hana Březinová

František Sivera (until 16 November 2010)

Josef Smýkal (until 19 November 2010)

Lukáš Hampl (since 14 December 2010)

Radim Vysloužil (since 14 December 2010)

### As of 1 April 2011, a new organizational structure of SŽDC Headquarters was introduced

As of 1 April 2011, the positions of Deputy Director General for Strategy, Deputy Director General for Technical Services, Deputy Director General for Asset Management, Deputy Director General for Human Resources were cancelled.

## SŽDC Management since 1 April 2011

### 1st Deputy Director General, Executive

#### Director and Deputy Director General for Audit

Pavel Habarta

### 2nd Deputy Director General

Bohuslav Navrátil

### Deputy Director General for Economics

Vladimír Filip

### Deputy Director General for Rail Operation

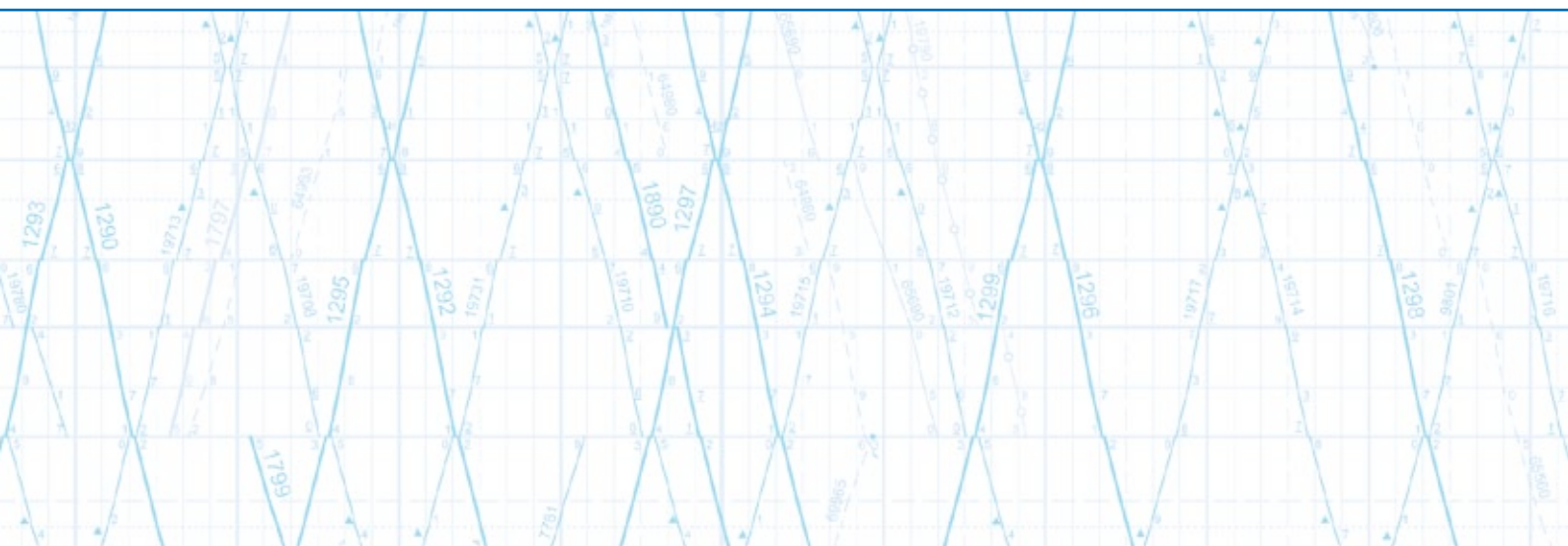
Jaromír Kadlec

### Deputy Director General for Rail Operability

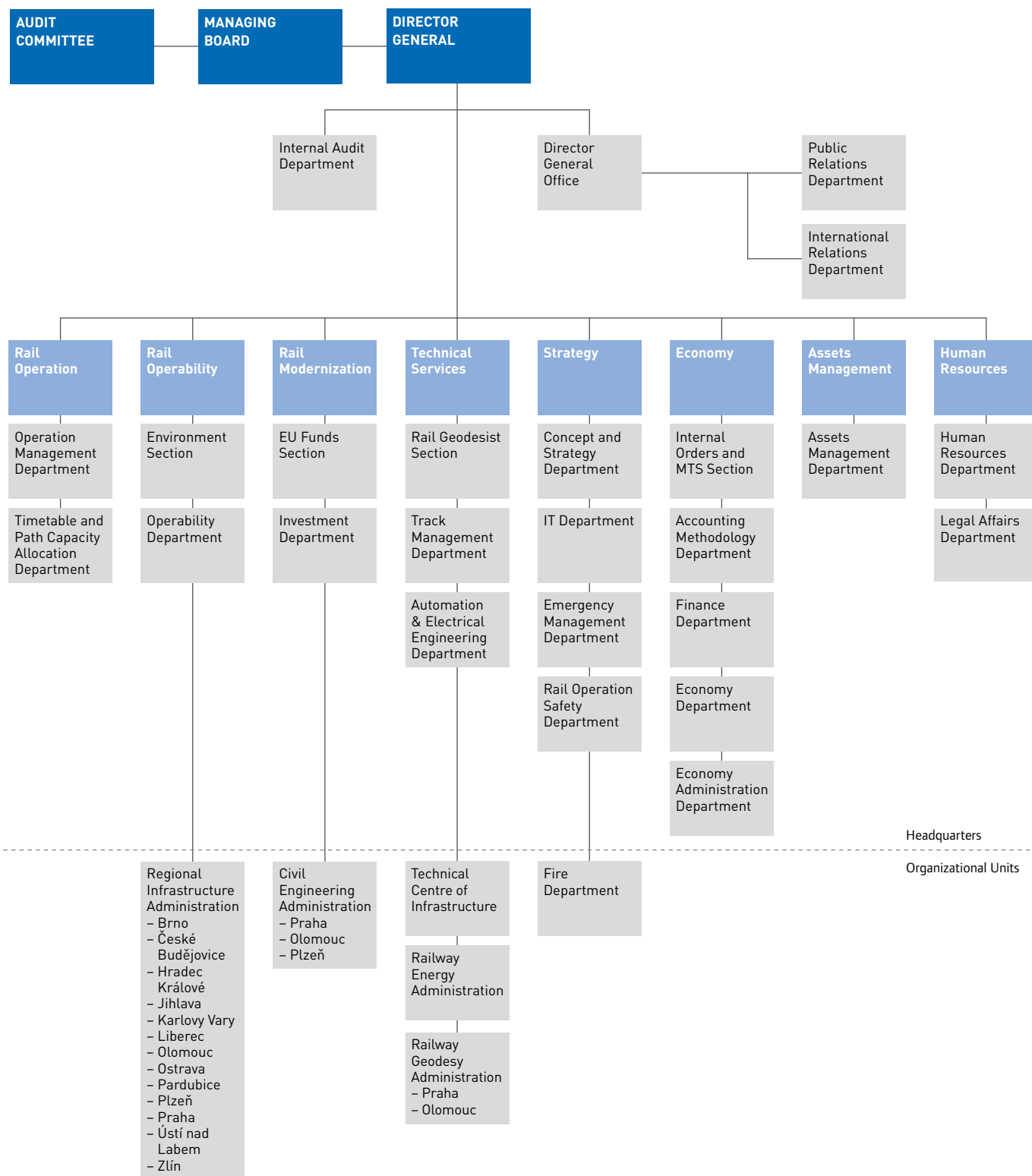
Josef Novobilský

### Deputy Director General for Rail Modernization

Jiří Martínek

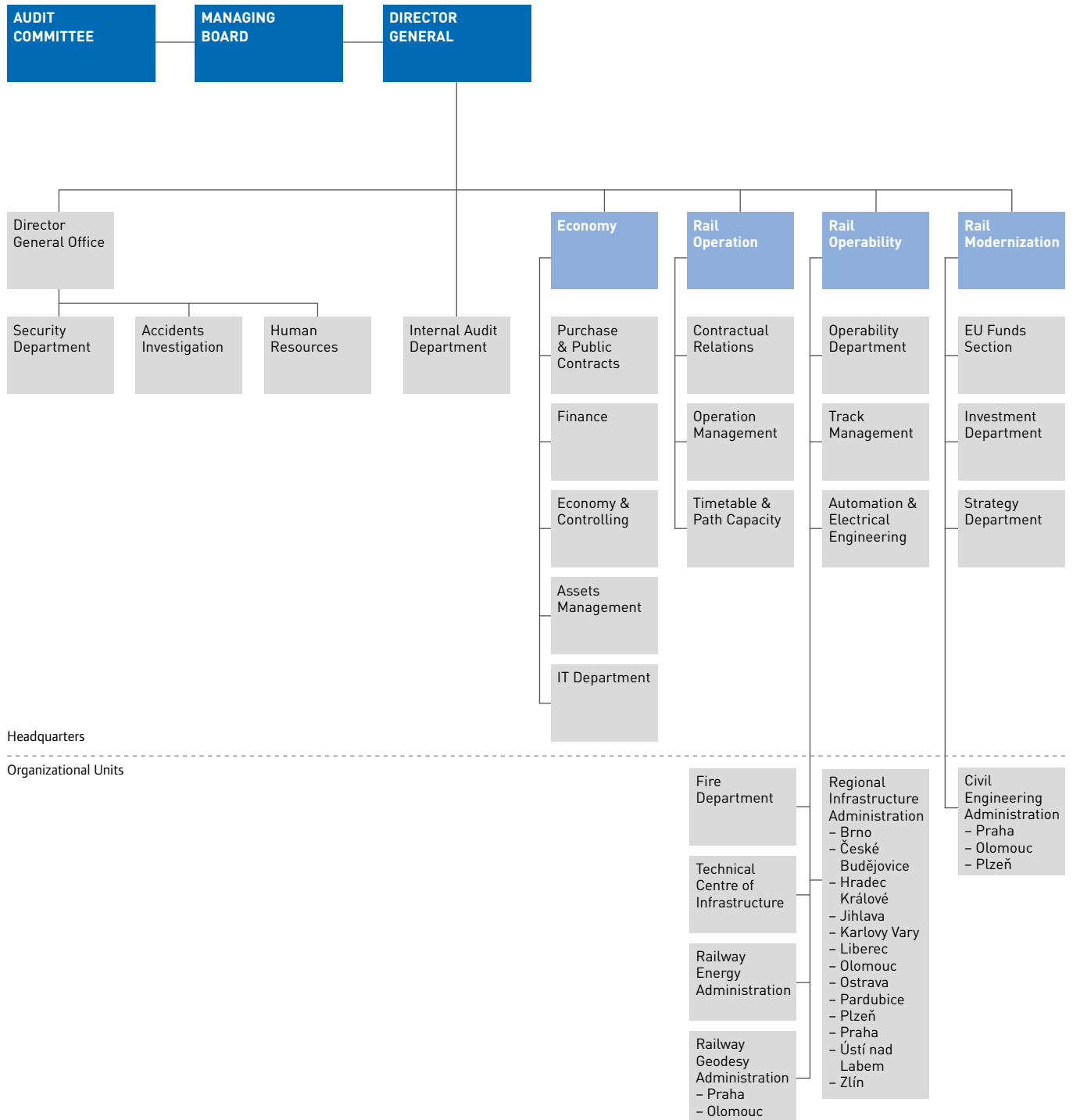


## SŽDC Organizational Structure as at 31 December 2010





## SŽDC Organizational Structure as of 1 April 2011



## SŽDC Organization Units

The organizational structure of the Railway Infrastructure Administration is divided into the Headquarters and 21 organization units: Regional Infrastructure Administrations (13), Civil Engineering Administrations (3), Rail Geodesy Administrations (2), Rail Energy Administration (1), Technical Centre of Infrastructure (1) and Fire Department (1).

### Specification of Organization Units functions

#### Regional Infrastructure Administration

ensures primarily administration, control, inspection, repair and maintenance of the railway infrastructure in the respective region. The railway infrastructure represents substructure, superstructure, level crossings, constructions and fixed installations required for the protection against adverse impacts of rail, telecommunication installations to transmit information, signalling installations, electrical facilities, fixed installations for the measurement, maintenance and repair of rail, buildings and rail transport facilities.

#### Civil Engineering Administration

ensures the implementation of the modernization of the Czech Republic's railway network.

#### Rail Geodesy Administration

ensures administration, control, supervision and operations related to geodesy. This involves e.g. administration of the railway geodesy set of points, administration of a unified railway map, control over track geometry or cadastral administration of rail property.

#### Rail Energy Administration

ensures administration, supervision and control of SŽDC's electrical distribution network and serves rail carriers and other customers.

#### Technical Centre of Infrastructure

ensures mainly the development and technical integration of the railway infrastructure installations and their diagnostics.

#### Fire Department

fulfils tasks related to fire and rescue service during rail-related accidents, and emergencies outside the rail area. It is part of the Joint Rescue Service of the Czech Republic. It cooperates with relevant Regional Infrastructure Administrations in order to ensure rail operability.

## Switch

Part of the railway superstructure allowing railway vehicles to pass from one track to another without interrupting the ride

- 1 switch blade – a movable part of the switch allowing a vehicle to turn off
- 2 points counterbalance ensuring that the switch blade is pressed to the stock rail; in the background a switch lock allowing emergency locking of the switch in one direction
- 3 flat turnout 1:26,5 – 2500 allowing the speed in the branching-off point of up to 130 km/h

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## IV. OPERATING THE RAILWAY INFRASTRUCTURE

Operating the railway infrastructure means to run and service it, and to organize rail transport.

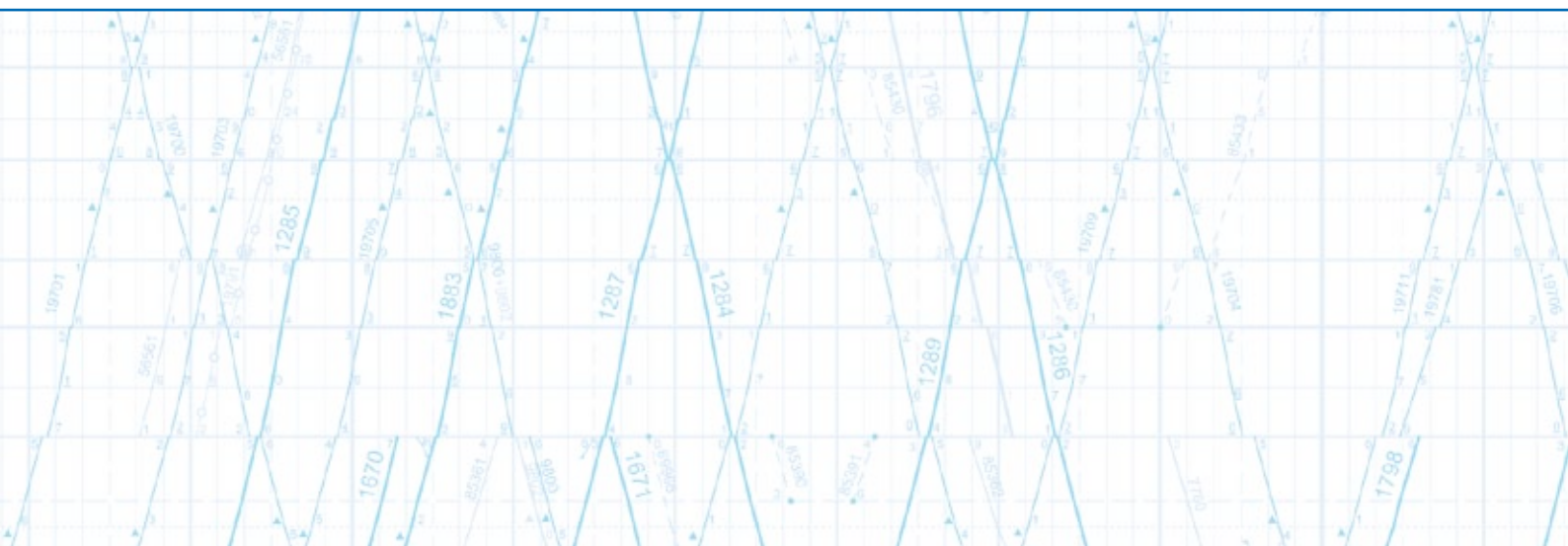
Pursuant to Railway Act No. 266/1994 Coll., as amended, SŽDC is obligated to ensure the operation of the national and regional rail network owned by the state. As of 1 July 2008, SŽDC has met the obligations of rail operator with its own capacities; only the work associated with the rail service, i.e. operation control in stations and along the lines, is contractually provided by the Czech Railways, a.s. (hereinafter referred to as ČD, a.s.) as the rail operator for SŽDC.

The regional routes of Trutnov – Svoboda nad Úpou and Sokolov – Kraslice were operated by VIAMONT, a.s. in 2010, based on a lease contract; under a lease contract, the regional route Milotice nad Opavou – Vrbno pod Pradědem was operated by OKD, Doprava, joint-stock company, that changed its name to Advanced World Transport a.s. as of 1 May 2010.

Classification of operators of the national and regional rail network owned by the state by the length of operated lines as at 31 December 2010:

SŽDC	9,412 km
VIAMONT a.s.	37 km
Advanced World Transport a.s.	20 km

In 2010, SŽDC spent CZK 5,605 million on the railway infrastructure operation. This amount comprises the expenses arising from a contractual relationship with the Czech Railways, a.s., and SŽDC's own expenses related to the rail infrastructure service – primarily the key expenses for organizing the rail transport, the costs of operating the telecommunication assets, etc.



## V. OPERABILITY OF THE RAILWAY INFRASTRUCTURE

Rail operability relates to maintaining good technical conditions of the railway infrastructure, ensuring its safe and smooth operation.

In 2010, the operability of the railway infrastructure managed by SŽDC was secured mainly by SŽDC's organization units, i.e. Regional Infrastructure Administrations (hereinafter referred to as "SDC"). Work related to the operability of the railway infrastructure is performed with the help of the company's personnel, machinery or technical capacities, and also contractually by suppliers active on the market.

In 2010, the rail operability was significantly tested by extreme weather conditions.

In May and June 2010, Moravia was affected by floods (primarily SDC Olomouc, Ostrava and Zlín); in August 2010, devastating floods hit Northern Bohemia (mainly SDC Liberec and Ústí nad Labem). Work to repair the flood damage has continued through 2011.

The winter season of 2010 can be considered average as regards the temperatures; in terms of precipitations it was above-average. A characteristic feature of the 2010 winter season was an unusually large amount of snow (30 – 50 cm) in areas which were rarely affected by snowfall in the previous years (primarily SDC Prague, Pardubice). Other specifics of the 2010 winter season comprised its unusual duration, as the snow cover even in lowlands had remained continuous for the entire first three months of the year, and heavy precipitations recorded in November and December 2010.

In the second half of 2010, SŽDC implemented a new system of announcing levels of winter precautions, which allowed SDC to efficiently deploy mechanization and human resources (both their own and the hired staff from other legal entities), while minimizing the effect of weather conditions on rail operability.

The total expenses (without amortization and the costs of eliminating the flood damage) incurred to ensure the operability of the railway infrastructure, including the centrally kept expenses of providing the operability, amounted to CZK 8,771 million in 2010. Projects in the total amount of CZK 312 million related to the elimination of the flood damage of 2009 and 2010 were implemented as well.

Overview of selected activities	2009	2010
Longitudinal and vertical alignment of tracks including completion of the railway bed	1,363 km	1,024 km
Maintenance of railway bed – tracks including completion of the railway bed	110 km	83 km
Set-up of contact-free tracks, welding-tracks	163 km	89 km
Set-up of contact-free tracks, welding-switches	257 s.u.	205 s.u.
Replacement of rails	336 km	144 km
Replacement of railroad ties including vertical track alignment	126,296	115,450

Note: Selected outputs in the area of Track Management are carried out (if necessary) based on the results of supervision activity and diagnostics.

## VI. MODERNIZATION AND DEVELOPMENT OF THE RAILWAY INFRASTRUCTURE

In 2009, we proceeded with the preparation and the implementation of the capital construction project which focused on the modernization and development of the railway infrastructure funded under the Operational Programme Transport (hereinafter referred to as "OPD"). The cost-saving measures adopted in the second half of 2010 considerably restricted the flow of financial means in the transport infrastructure through the budget of the State Fund for Transport Infrastructure (hereinafter referred to as "SFTI"). Despite the cost-saving measures, several projects necessary to enhance the rail operation safety were implemented. They mainly involved track rationalization where the existing signalling installation was replaced with a new-generation installation with a minimum involvement of the human factor. Rationalization projects were financed mostly from a SŽDC non-guaranteed loan. Furthermore, we implemented projects necessary to provide enhanced safety at level crossings with the objective to prevent or rather minimize collision threats on critical spots of the railway infrastructure. The reconstruction and the modernization of level crossings were implemented separately or as an integral part of other constructions, e.g. modernization, rationalization and reconstruction of lines and track sections.

## Modernization of railway transit corridors

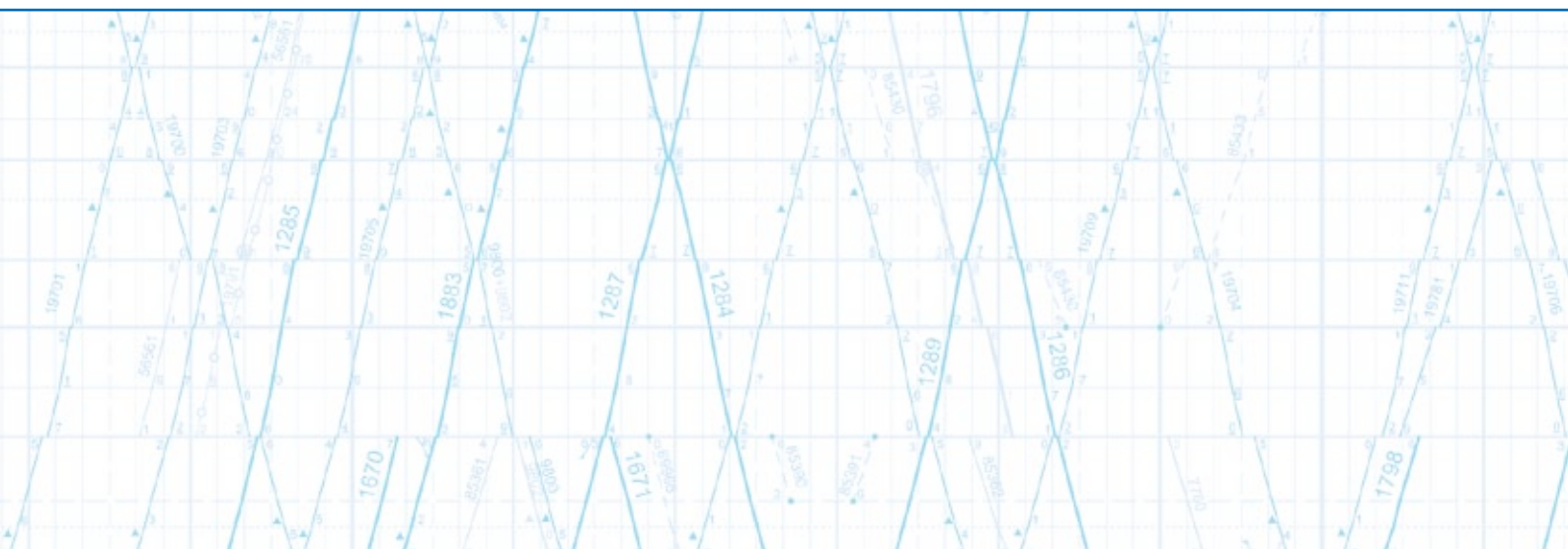
In 2010, work proceeded on the modernization of the railway transit corridors. In the Third Railway Transit Corridor, the Mosty u Jablunkova – Dětmárovice branch, construction work continued on the projects "Optimization of the track section along Slovakia's state border – Mosty u Jablunkova – Bystřice nad Olší", and the "Optimization of the track section of Bystřice nad Olší – Český Těšín", with the anticipated completion in 2012. Project work

continues on the "Optimization of the track section of Bystřice nad Olší – Český Těšín", second part – railway station Český Těšín" and the "Optimization of the track section of Český Těšín – Dětmorovice".

In the section between Prague and Pilsen, construction work continues on the "Optimization of the track section Beroun – Zbiroh" with the anticipated completion in 2012, and on the "Optimization of the track section Zbiroh – Rokycany" with the anticipated completion in 2013. In 2011, a construction project for "Modernization of the track section of Rokycany – Pilsen" is scheduled to commence. Currently the best modernization alternative is being selected for the track section Prague – Beroun.

In the section between Pilsen and Cheb, the "Optimization of the track section Plzeň – Stříbro" and the "Optimization of the track section Planá u Mariánských Lázní – Cheb" are completed, and work continues on the "Optimization of the track section Stříbro – Planá u Mariánských Lázní" with the anticipated completion in 2011. In 2011, the construction of "Transit through the Pilsen junction in the direction of the Third Railway Transit Corridor" is scheduled to launch, and project work continues on the "Optimization of the track section Cheb – state border". The recently activated signalling installations in the section Plzeň – Cheb are remotely controlled from a temporary traffic control centre in Pilsen.

The "Optimization of the track section Horní Dvořiště – České Budějovice" and the "Modernization of the track section Veselí nad Lužnicí – Tábor – first part, Doubí u Tábora – Tábor", the "Optimization of the track section Benešov u Prahy – Strančice", and the "Optimization of the track section Strančice – Praha





Hostivař” were completed in the Fourth Railway Transit Corridor in the track section Horní Dvořiště – České Budějovice – Prague. The implementation of the “Modernization of the track section Votice – Benešov u Prahy” proceeds and the anticipated year of completion is 2013; the “Modernization of the track section České Budějovice – Nemanice” has begun. The “Modernization of the track section Ševětín – Veselí nad Lužnicí, second part, and of the track section Husovice – Veselí nad Lužnicí” is scheduled to commence, while project work continues on with the remaining constructions. The dates for the project implementation launch in the section Tábor – České Budějovice largely depend on OPD funds and on other decisions made by the Ministry of Transport.

#### **Modernization of crucial railway junctions in the path of corridors**

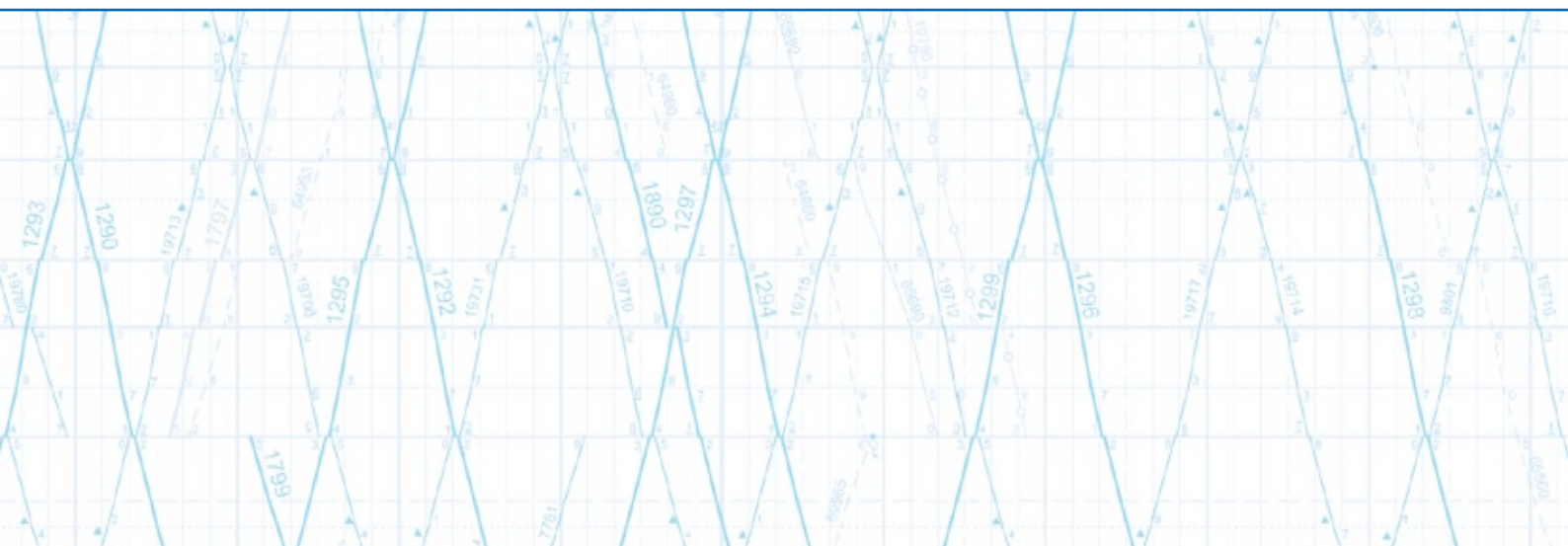
In addition to the modernization of railway transit corridors, significant railway junctions have also been modernized. Transits through the railway junctions of Děčín, Ústí nad Labem, Kolín, Choceň, Břeclav 1st construction, Bohumín and “Brno – 1st part storage sidings” are completed. The “Modernization of the western part of Prague, the main station, “the New Link” and the “Modernization of the railway section Prague-Libeň – Prague-Běchovice, 1st part” were completed in the Prague junction. Transits through the railway junction Přerov are being implemented and preparations for the transit through the Olomouc junction have been completed. Preparations are under way for the “Optimization of the track section Prague-Holešovice – Prague-Bubeneč” and the “Modernization of the track section Prague-Běchovice – Úvaly”, which will complete the transit of the First Railway Transit Corridor through the Prague junction. Projects for the track sections Prague-Hostivař – Prague main station, and Prague

main station – Prague-Smíchov are being drafted; they will ensure connection of the third and fourth corridors with the Prague junction. Implementation dates for the construction projects of the Prague junction depend on available financial sources and on respective decisions at the level of the Ministry of Transport. Preparatory work continues on transit constructions through the junctions of Ústí nad Orlicí, Plzeň, Brno, Pardubice and Česká Třebová.

#### **Electrification of lines and power-supply systems**

Other significant investments include the electrification of lines. Electrified track sections Letohrad – Lichkov, České Velenice–České Budějovice, Zábřeh na Moravě – Šumperk, Šatov – Znojmo and Lysá nad Labem – Milovice were put into operation. The sections Brno – Train stop near Brno, and Otrokovice – Zlín are under preparation.

Under the corridor constructions the contact line system and traction substations are reconstructed. In 2010, under the “Optimization of the track section along Slovakia’s state border – Mosty u Jablunkova – Bystřice nad Olší”, the construction of the new traction substation in Mosty u Jablunkova was completed, the traction substation in Jablunkov was reconstructed and the contact line system was replaced. Under the “Optimization of Planá u Mariánských Lázní – Cheb”, the reconstruction of the transformer station at Jindřichov u Chebu and of the switching substations at the railway stations Lipová u Chebu and Lázně Kynžvart was completed. The reconstruction of the transformer station at Planá u Mariánských Lázní was completed. Under the “Optimization of the track section Beroun – Zbiroh”, the reconstruction of the contact line system in the track section Beroun – Zdice and the transformer station at the railway station Zdice were



completed, and under the "Optimization of the track section Benešov – Strančice", the reconstruction of the combined substation at the railway station Benešov u Prahy was completed.

#### Enhancing safety at level crossings

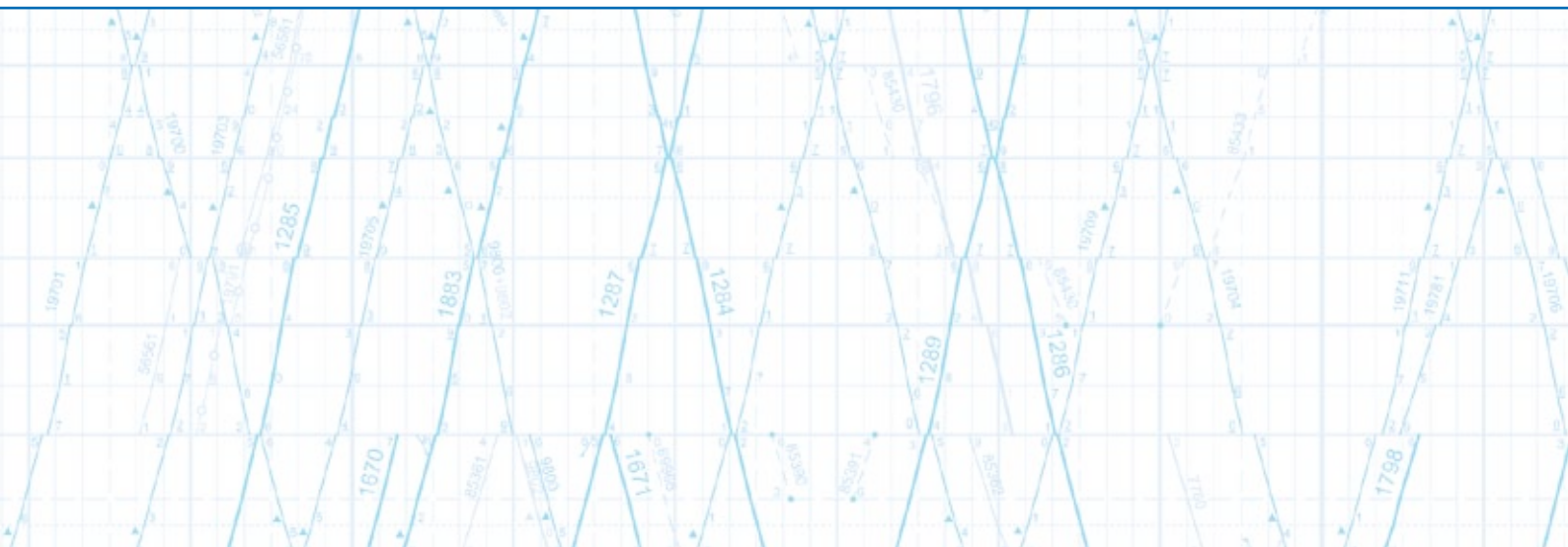
During 2010, special attention was paid to railway crossings representing critical crash spots for road and railway vehicles. Under the program "Enhancing safety at level crossings", dozens of reconstructions of level crossings and level crossings safety installations (flash light crossing signals – hereinafter referred to as "PZS") were implemented in 2010.

Examples: "Installation of PZS on km 27,966 and 28,752 H. Brod – Pardubice – Rosice n. L.", "Installation of PZS on km 64,364, 65,065, 65,606 of the section Čičenice – Volary", "Reconstruction of the level crossing on km 90,412 at the railway station Jihlava City", "Installations of PZS on km 6,710 of the section Karlovy Vary – Potůčky", "Reconstruction of the level crossing on km 56,150 of the section Horaždovice Suburb – Domažlice", "Rationalization in the section Jaroměř – Stará Paka – Železný Brod, 2nd construction: PZS km 89,407, PZS km 92,572, PZS km 93,097, PZS km 94,861, PZS km 95,315, PZS km 100,163, PZS km 102,017, PZS km 102,544", "Reconstruction of the level crossing on km 66,375 of the section Veselí nad Moravou – Vrbovice", "Reconstruction of the level crossing on km 88,578 of the section Veselí nad Moravou – Kunovice", "Reconstruction of the level crossing structure on km 32,966 Brno – Přerov", "Reconstruction of PZS on km 27,028 of the section Skalice nad Svitavou – Chornice", "Reconstruction of PZS on km 22,139 of the section Suchdol n. O. – Budišov n. B.", "Installation of PZS on km 2,560 of the section Opava East – Hradec nad Moravicí", "Installation

of PZS on km 37,861 of the section Suchdol nad Odrou – Budišov nad Budišovkou", "Installation of PZS on km 5,093 of the section Suchdol nad Odrou – Nový Jičín", "Installation of PZS on km 91,493 of the section Krnov – Opava East", "Installation of PZS on km 1,707 of the section Krnov – Jindřichov in Silesia", "Reconstruction of PZS on km 156,117 of the section Vlárský průmysk – Staré město u Uherského Hradiště", "Reconstruction of PZS on km 144,188 of the section Vlárský průmysk – Staré město u Uherského Hradiště", "Reconstruction of PZS on km 8,605 and 9,109 Újezdec u Luhačovic – Luhačovice", "Reconstruction of the level crossing surface on km 37,308 of the section Valašské Meziříčí – Vsetín", "Reconstruction of PZS on km 49,051 of the section Kojetín – Valašské Meziříčí".

#### The preparation and implementation of projects concerning the installation of "Global System for Mobile Communication for Railway" (GSM-R) and "European Train Control System" (ETCS) and ensuring the interoperability of lines integrated into the European railway system

Other significant investments include constructions ensuring the interoperability of the railway network. The implementation of the digital radio system of GSM-R on the First Railway Transit Corridor Děčín – Kolín – Břeclav and on the Second Railway Transit corridor Břeclav – Přerov – Petrovice u Karviné will be followed by the implementation of GSM-R in the sections Ostrava – Mosty u Jablunkova – state border of the Slovak Republic, Přerov – Česká Třebová and Děčín – Všetaty – Kolín – Havlíčkův Brod – Křižanov – Brno. The evaluation of the pilot project of ETCS (European Train Control System) in the section Poříčany – Kolín still continues and this project will be followed by the implementation in the section Kolín – Břeclav – state border with Austria/Slovakia, and later on by Kolín – Prague – Děčín – state border



of Germany. The construction of the central traffic control centre in Přerov is under way that will control the operation on all corridor lines in Moravia, and the second central traffic control centre is being designed; it will be set up in Prague and will control the operation on the corridor lines in Bohemia.

#### Rationalization projects

In 2010, the following construction projects were completed under the rationalization programme: "Remote control of the signalling device Střelice – Hrušovany n/J, 1st stage", Rationalization of the track section Jaroměř – Stará Paka – Železný Brod, 2nd part", and "Rationalization of the track section Svitavy – Žďárec u Skutče".

In 2011 and in the years to come, the efforts will focus on continuing the rationalization plans of the past period. The draft of the first budget provision for 2011 included the following projects: Remote control of the signalling device Františkovy Lázně – Aš, remote control of the signalling device Česká Třebová – Přerov, remote control of the signalling device Břeclav – Brno; their implementation, if approved by the budget provisions, is slated for 2011–2012. This should lead to substantial improvement of technical aspects impacting the effect of the human factor on the rail operation safety, as well as to the reduction in the number of operation staff.

#### Optimization and reconstruction of other lines

In 2010, the "Optimization of the track section České Velenice – Veselí nad Lužnicí – 1st construction" was completed, comprising overall modification of the track arrangement of the railway station České Velenice, equipping this station with new technologies and its electrification with alternating current traction 25 kV 50 Hz. The "Construction of the railway station Silůvky" was completed.

The reconstruction of the railway station Bojkovice with anticipated completion in early 2011, and the reconstruction of the railway station Nesovice, 2nd part, was launched.

Preparations for "Track adjustments at the railway station Stará Paka for DOZ" were finalized. The start of the implementation is anticipated in the course of 2011.

The modernization of the track section Hradec Králové – Pardubice with double-tracking of the section Stéblová – Opatovice nad Labem, the optimization of the track sections Ostrava – Kunčice – Frýdek-Místek – Český Těšín, and Lysá nad Labem – Prague-Vysočany are under preparation. New tracks in the sections Choceň – Ústí nad Orlicí, Brno – Přerov, and Plzeň – Česká Kubice are under preparation for long-term implementation.

#### Projected development

Anticipated financial sources and the amount of allocated subsidies in the coming years are based on strategic goals and priorities adopted by Resolution No. 237 of the Chamber of Deputies of the Parliament CR, dated 15 December 2010, in the summary document "2011 SFTI Budget and the medium-term outlook for 2012 and 2013".

In the coming years, the capital construction shall focus on projects which contribute to establishing the high-quality connection of the Czech Republic with other countries, while observing nation-wide needs for fast and high-quality connections across specific regions of the Czech Republic. The key benefits of the modernization are enhanced speed, safety and comfort of travelling, increased path capacity, reliability of passenger and freight transport and reducing the impact on the environment.

#### Anticipated development of financial sources for capital construction in 2011–2013

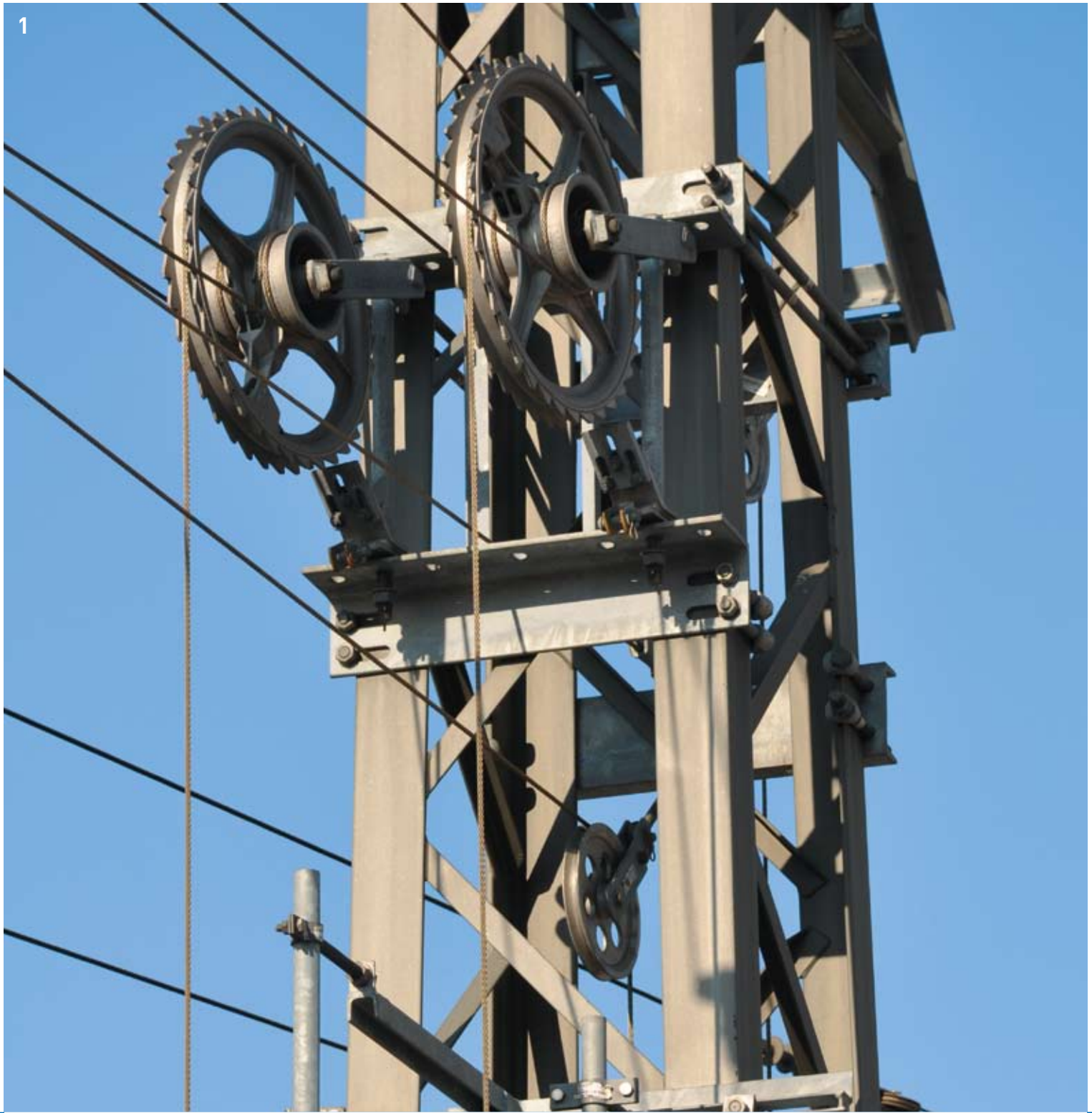
(in CZK million)

Financial sources	Anticipated subsidy		
	2011	2012	2013
OPD	6,521.50	7,661.00	7,926.46
EIB	3,692.71	3,056.24	3,426.57
SFDI	4,790.01	5,224.99	4,735.29
<b>Total</b>	<b>15,004.22</b>	<b>15,942.23</b>	<b>16,088.32</b>

Source: SŽDC, s.o.



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## VII. UTILIZATION OF THE RAILWAY INFRASTRUCTURE BY CARRIERS

The Czech Republic provides all carriers, who meet the terms set forth by the Railway Act, with equal access to the state-owned railway infrastructure.

As of 1 January 1995, the Czech Republic introduced a standard system of granting licences to operate rail transport, and as of

1 May 2004 a license to operate rail transport has been awarded by a EC member state authority.

The number of carriers utilizing the railway infrastructure has increased compared to 2009, in particular the number of carriers operating the passenger transport.

### Trend in the number of carriers (as at 31 December of the relevant year):

Year	2003	2004	2005	2006	2007	2008	2009	2010
Carriers	46	50	52	53	56	53	62	68

### Performance of carriers in 2006–2010:

Year		2006	2007	2008	2009	2010
Passenger	[trkm]	116,302,650	118,387,288	121,939,150	125,911,649	123,268,921
Freight	[trkm]	42,084,461	43,466,460	43,685,964	36,594,939	36,926,304
<b>Total</b>	<b>[trkm]</b>	<b>158,387,111</b>	<b>161,853,748</b>	<b>165,625,114</b>	<b>162,506,588</b>	<b>160,195,225</b>
Passenger	[thousand gtkm]	22,594,373	23,103,133	24,155,227	24,989,309	23,711,845
Freight	[thousand gtkm]	37,857,278	39,250,794	37,996,173	30,584,797	32,516,559
<b>Total</b>	<b>[thousand gtkm]</b>	<b>60,451,651</b>	<b>62,353,927</b>	<b>62,151,400</b>	<b>55,574,106</b>	<b>56,228,404</b>

Note:

trkm– train kilometre represents the distance travelled by train in kilometres.

gtkm– gross ton kilometre is a product of gross weight of railway vehicles (tractive units, railway carriages and other vehicles on own wheels) integrated in the train and distance travelled in km.

## Contact Line System

Principal and essential part of the infrastructure for the power transmission to electric traction units (locomotives)

- 1 tension system of the overhead contact line
- 2 framework of the overhead contact line over more tracks (gate)
- 3 traction disconnectors at the level of the Church of St. Cyril and Methodius in Prague

### Share of carriers in freight transport production in 2009 and 2010 (%):

Carrier	gtkm 2009	trkm 2009	gtkm 2010	trkm 2010
ČD Cargo, a.s.	88.77	79.54	86.84	78.19
Advanced World Transport a.s.	5.18	3.56	5.63	4.14
UNIPETROL DOPRAVA, s.r.o.	2.80	2.21	3.62	2.96
České dráhy, a.s.	0.39	3.38	0.89	4.28
Ostravská dopravní společnost, a.s.	0.42	0.30	0.73	0.52
PKP CARGO SPÓŁKA AKCYJNA	-	-	0.42	0.44
Traťová strojní společnost, a.s.	0.50	1.38	0.37	0.99
BF Logistics s.r.o.	0.19	0.23	0.29	0.28
LTE Logistik a Transport Czechia s.r.o.	0.05	0.04	0.20	0.14
Sokolovská uhelná, právní nástupce, a.s.	0.10	0.09	0.13	0.10
Other carriers	1.60	9.27	0.88	7.96

Note:

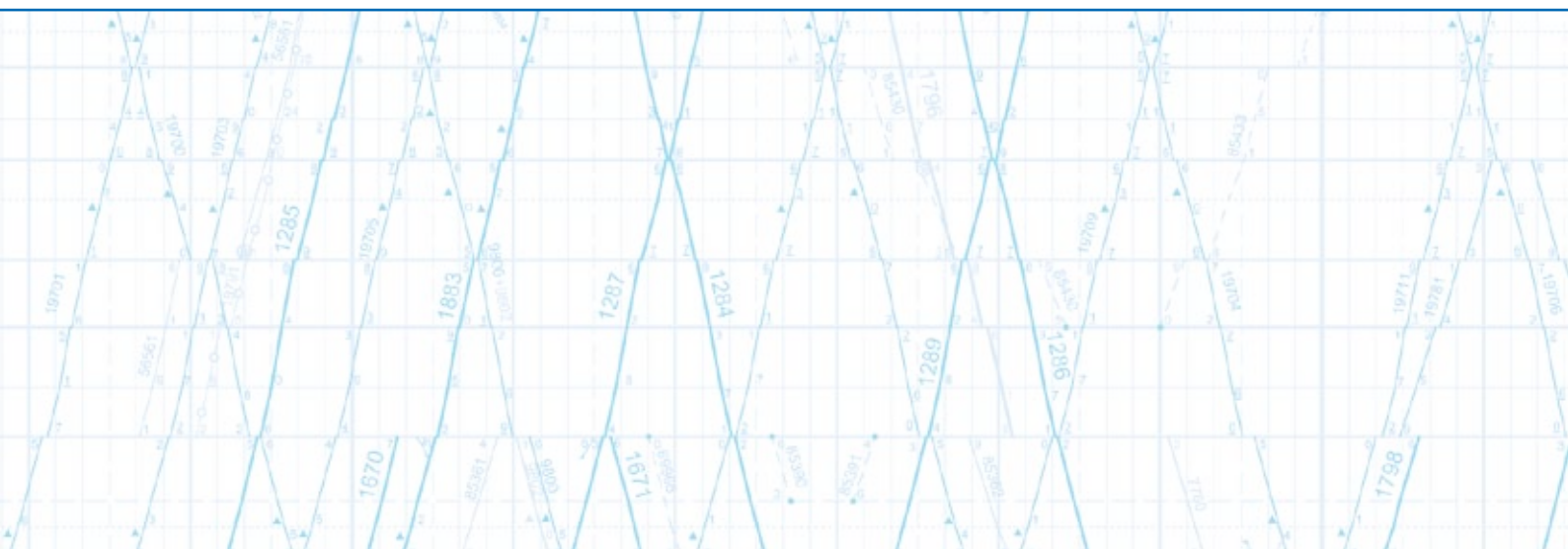
OKD, Doprava, joint-stock company, changed its name to Advanced World Transport a.s. as of 1 May 2010.

### Share of carriers in passenger transport production in 2009 and 2010 (%):

Carrier	gtkm 2009	trkm 2009	gtkm 2010	trkm 2010
České dráhy, a.s.	99.82	99.18	99.76	99.04
VIAMONT a.s.	0.13	0.60	0.16	0.76
RAILTRASPORT s.r.o.	0.02	0.08	0.03	0.07
RegioJet a.s.	-	-	0.02	0.05
Vogtlandbahn-GmbH, organizační složka	-	-	0.01	0.02
Other carriers	0.03	0.14	0.02	0.06

The track access charge is a regulated price. Maximum prices are set by the Ministry of Finance. As of 1 January 2009, the track access charge was reduced by 20% both in passenger and freight transport. This reduction in maximum prices, together with the production decrease in freight transport, led to a decline

in track access revenues both in 2009 and in 2010. At the end of 2010, partial modification of the track access charge was discussed for 2011 due to a rise in charges for passenger trains that do not provide basic transport services, and a reduction in charges for freight trains.





Altogether, 21 carriers applied for the path capacity allocation for the 2010/2011 timetable, based on the National and Regional Network

On 26 November 2010, SŽDC published the National and Regional Network Statement, valid for the 2011/2012 timetable. This document had been redrafted pursuant to the common structure of RailNetEurope. The deadline for carriers' applications for path capacity allocation was 11 April 2011.

SŽDC will continue to create favourable conditions for the access of new carriers to the railway infrastructure operated by SŽDC, and to provide equal track access for the carriers and fair collection of track access charges.

## VIII. RAIL OPERATION SAFETY

One of the main parameters of the rail operation relates to the area of safety. SŽDC's Security Department in cooperation with other units carries out activities associated with the rail operator's obligations pursuant to Railway Act No. 266/1994 Coll., as amended, and to Regulation No. 376/2006 Coll., on the System of Rail Operation Safety and on procedures during rail accidents. Basic obligations resulting from laws and regulations include reporting, investigating and evaluating accidents and adopting and implementing relevant measures related to accidents. Specific procedures are set forth in the SŽDC Rules of Procedure, and the rail operator's internal regulations and instructions. Based on a contractual relationship, the Czech Railways, joint-stock company, still fulfils some of the obligations, such as reporting, investigating and evaluating accidents, for SŽDC as the rail operator.

In connection with the endeavour to streamline the operations of all SŽDC departments, other related tasks are being gradually taken over to be dealt with by their own sources with a prospect for taking over all legal obligations in the area of safety to be provided by SŽDC's organization units.

Special attention is paid to enhancing rail operation safety from the side of SŽDC.

### Level Crossing

Crossing of rail and road at the track level

- 1 level crossing road signal with LED lamps with a warning cross and reflective modification
- 2 level crossing safety installation cabin
- 3 level crossing with half gates

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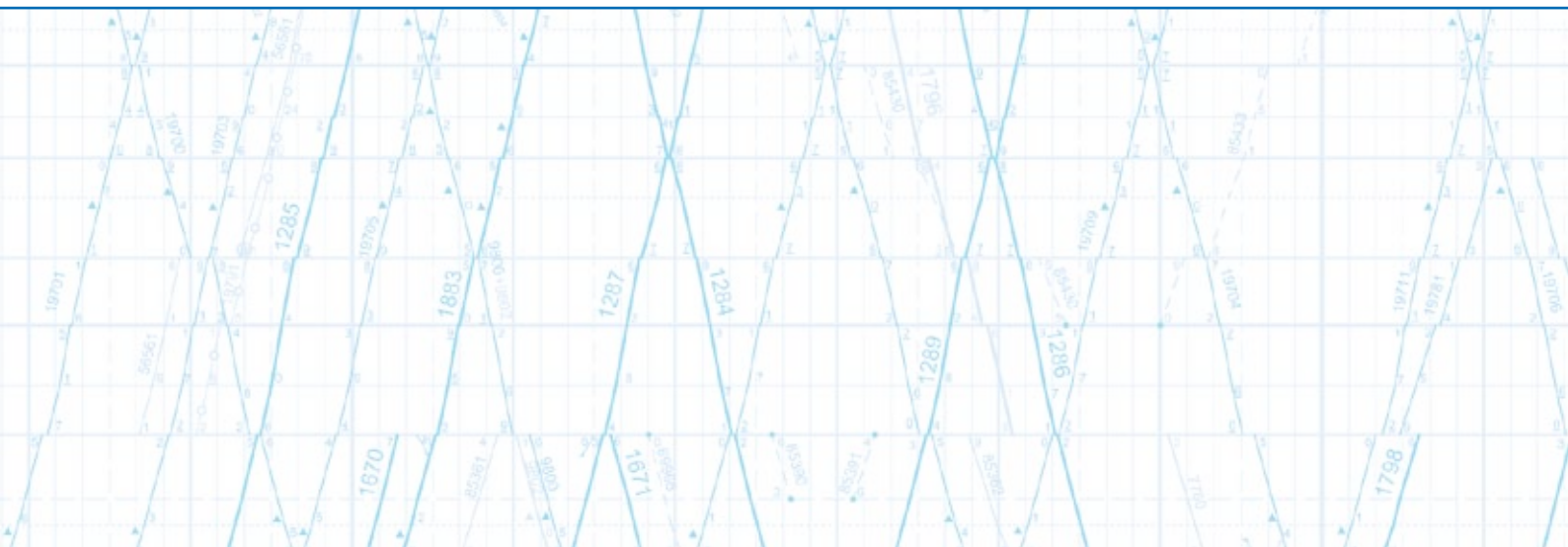
## IX. ASSET MANAGEMENT

SŽDC manages state assets recorded in two accounting categories; in the category involving the railway infrastructure (hereinafter referred to as ZDC category) and in the category involving assets specified in the Amendment to the Transformation Act (hereinafter referred to as MOZ category). The right concerning the management of ZDC assets became effective as of 1 January 2003 in compliance with the Transformation Act. The Amendment to the Transformation Act implemented through Act No. 293/2004 Coll., in effect since 1 July 2004, abolished the entitlement of the Ministry of Transport to manage the assets specified in the Amendment to the Transformation Act and, simultaneously, SŽDC was authorized to manage MOZ assets.

Temporarily disposable ZDC assets are leased to third parties. Revenues from the lease amounted to CZK 73.7 million in 2010. Permanently disposable ZDC assets are sold off in accordance with the Transformation Act. During 2010, 84 business cases were closed where the agreed purchase price totalled CZK 23.6 million, of which CZK 21.49 million is included in 2010 revenues.

The MOZ assets, which are transferred through the process of privatization, are managed in accordance with the plan for asset management adopted by the Commission set up by the establisher – the Ministry of Transport. The income from the privatization is remitted to SŽDC through the Ministry of Finance, based

on a concluded Contract for the transfer of funds that also includes amendments with updated lists of privatization projects. The last Amendment No. 2 was concluded on 26 January 2011, stipulating that all 2010 revenues from privatization and some revenues that remained unsettled in the previous periods will be transferred. In 2010, assets of CZK 5.3 million were excluded from the bookkeeping and sold under the privatization scheme. Financial means obtained from the privatization, however, will be transferred from the Ministry of Finance to SŽDC in 2011, based on the concluded Amendment No. 2. Other MOZ assets are sold in the form of tenders announced by SŽDC. In 2010, the sale of two items in the total amount of the agreed purchase price of CZK 4.3 million was effected, of which CZK 3.2 million will be paid in 2011. In case of interest, the MOZ assets are leased until sold or privatized. Revenues from the lease amounted to CZK 37.6 million in 2010. All the aforementioned revenues from MOZ assets are, by law, designated to settle the debt of the former Czech Railways, state organization. In 2011, SŽDC anticipates the implementation of approximately 20 privatization projects, estimated at CZK 40 million.



# X. COMPANY PERFORMANCE

## A. Operation and Operability of the Railway Infrastructure

The costs of ensuring operation and operability of the railway infrastructure (without amortization) and the costs of eliminating the flood damage totalled CZK 14,376 million in 2010, and are comprised of the expenses arising from the contractual relationship with the Czech Railways and SŽDC's own expenses related to these activities. They mainly include personnel expenses and expenses incurred by outsourcing construction work.

**Following revenues were used to offset the expenses:**

<b>Revenues from the track access</b>	<b>CZK 4,322 MM</b>
of which:	
freight (ČD, a.s., and ČD Cargo, a.s.)	CZK 2,620 MM
passenger (ČD, a.s.)	CZK 1,317 MM
other carriers (except for ČD, a.s., and ČD Cargo, a.s.)	CZK 385 MM
<b>subsidies from the State Fund for Transport Infrastructure for repair and maintenance</b>	<b>CZK 8,159 MM</b>
<b>subsidies for the railway infrastructure not covered by SFTI</b>	<b>CZK 1,777 MM</b>

The remaining expenses incurred were funded from other SŽDC sources generated through operations of SŽDC's organization units.

## B. Modernization and development of the railway infrastructure

The main sources of funding the capital construction mostly came from public funds. The most significant source of funding in 2010 in the area of capital construction were again subsidies from the EU Funds. The largest share of financial means is allotted to OPD subsidies. Other sources were obtained from EIB, SFTI, TEN-T Fund, a non-guaranteed loan and contributions from regions, cities and municipalities.

Within the scope of preparation and implementation of investment projects related to the railway infrastructure, the volume of obtained investment subsidies was CZK 14,775 million in 2010.

<b>of which:</b>	
SFTI for construction and modernization	CZK 13,967 MM
EU Funds	CZK 794 MM
Contributions from cities, municipalities, regions and other parties	CZK 14 MM

## C. Receivables and liabilities taken over from the former Czech Railways, state organization

As at 1 January 2003, SŽDC took over the current liabilities of the former Czech Railways, state organization. At present, all current liabilities have been settled, excluding those representing the subject of lawsuits, allowances and contributions to the pensions of former employees. Provisions have been established for these liabilities. At the same time, SŽDC took

over, as of 1 January 2003, long-term liabilities by virtue of overdrawn bank loans of the former Czech Railways, state organization. The maturity of the liabilities is set on a gradual basis, currently up to 2020. A part of the long-term liabilities is also SŽDC's obligation to the bond holders by virtue of bonds issued in the amount of CZK 7,000 million, payable in March 2011.

As of 1 January 2003, SŽDC also took over defined receivables of the former Czech Railways, state organization, resulting from business relations. Settlement of these receivables has been under way since 2003 in the form of payment schedules arranged with debtors, legal proceedings, debt collection through bailiffs or distrainers, ceding of receivables or write-offs of bad debts. As at 31 December 2010, the company recorded receivables taken over from the Czech Railways in the amount of CZK 190 million.

In 2011, SŽDC will proceed with the settlement of specific receivables and with ceding of receivables depending on the interest of potential transferees. It relates to long overdue trade receivables. In case of some claims, where not even the legal collection including the distraint order is effective, it will result in the write-off of receivables.

#### **D. Bond issue**

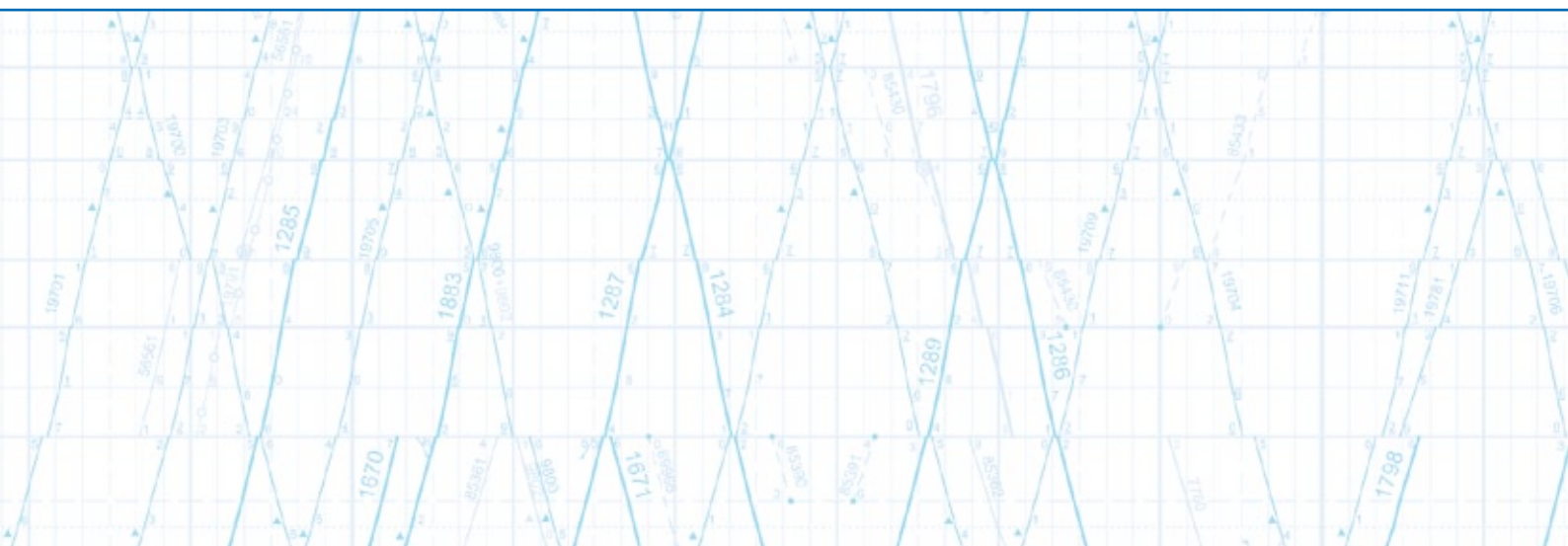
As at the date of its establishment, SŽDC took over long-term liabilities arising from guaranteed credit contracts on financing corridors and other programmes guaranteed by the state in accordance with the Transformation

Act. Following Czech Government Resolution No. 908 of 10 September 2003 on Liabilities and Receivables of the Czech Railways, state organization, as at 31 December 2002, and the solution method, SŽDC approached issuing bonds totalling CZK 7 billion in 2004. The profit from the issue covered defined liabilities. The bonds were issued on 3 March 2004 and repaid in March 2011. SŽDC successfully sustained this agenda and duly met all the obligations of the issuer of securities to the Prague Stock Exchange and the Czech National Bank which supervises the capital market.

#### **E. SŽDC financial results**

The Company posted a loss before taxes of CZK (1,835) million on revenues totalling CZK 22,226 million and expenses totalling CZK 24,061 million. The negative figure did not result from an increase in the expense items, but from a shortage of revenues due to a drop in income from regulated lower prices for the track access since 2009 and a lower contract-based amount of the remission of SŽDC obligations (the so-called "debt remission"), compared to the previous period. Conversely, the financial results were positively affected by the savings resulting from the central management and internal cost-saving measures adopted for the expenditure area of activities related to the operation and operability of the railway infrastructure.

Deferred tax in the amount of CZK 331 million had a positive impact on the total loss. Recognition of the deferred tax does not influence SŽDC's cash flows, nor does it decrease the value of assets in 2010.



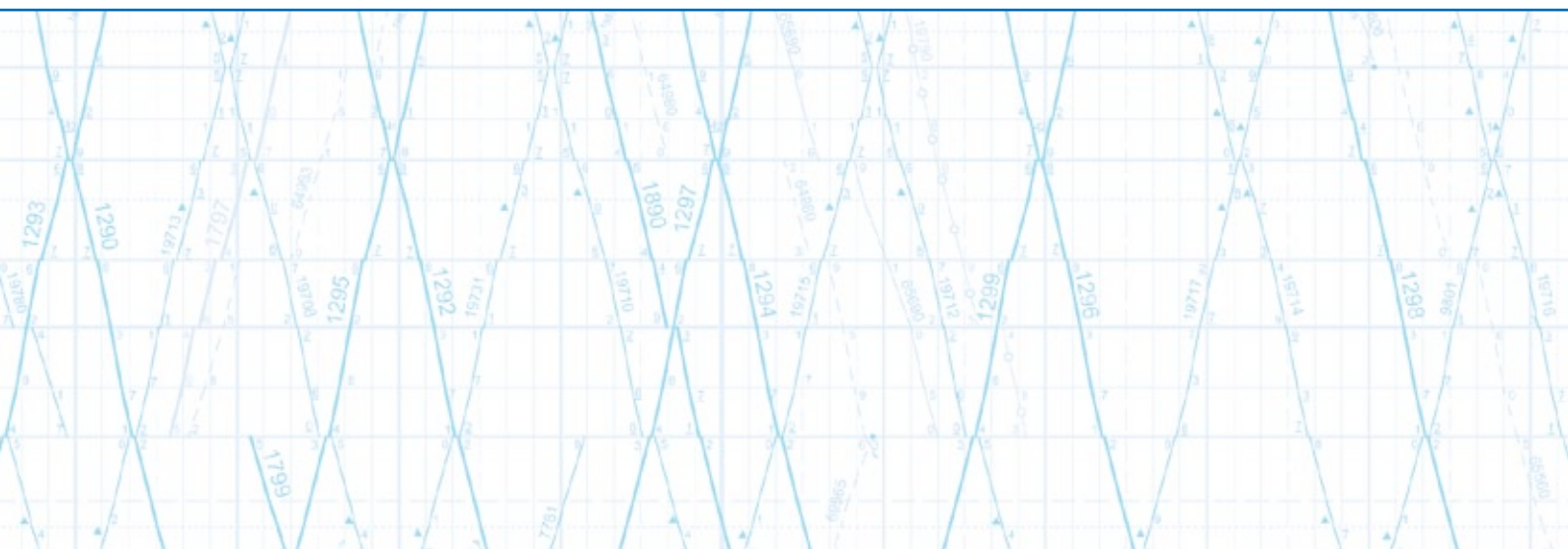


The following items had the most significant impact on SŽDC's loss after tax in the amount of CZK (1,504) million:

	(in CZK million)
Payment for track access	4,322
Subsidy from SFTI for repair and maintenance	8,159
Subsidy from SFTI for repair and maintenance after the flood	312
Subsidy for the railway infrastructure not covered by SFTI	1,777
Other subsidies	84
SŽDC debt remission pursuant to Government Resolution No. 1533	3,751
Material, energy consumption and services	-11,497
Personnel expenses	-4,622
Book depreciation of SŽDC assets (including the railway infrastructure)	-4,553
Balance of other operating revenues and expenses	949
<b>Operating profit/loss</b>	<b>-1,318</b>
Interest expense and income	-905
Exchange rate difference	424
Other financial revenues and expenses	-34
<b>Financial profit/loss</b>	<b>-515</b>
<b>Extraordinary profit/loss</b>	<b>-2</b>
<b>Profit/loss before tax</b>	<b>-1,835</b>
Deferred tax	331
<b>Profit/loss after tax for the year</b>	<b>-1,504</b>

Payment for the track access represents the track access charge from carriers and is a significant revenue item for SŽDC. The payment for the track access is one of the sources for SŽDC to cover the costs related to the rail maintenance and railway transport administration.

SFTI subsidies are the most important revenue as well as income item of SŽDC. SFTI provides – on a contractual basis – non-investment funds for financing repair and maintenance of the national and regional rail owned by the state and managed by SŽDC.

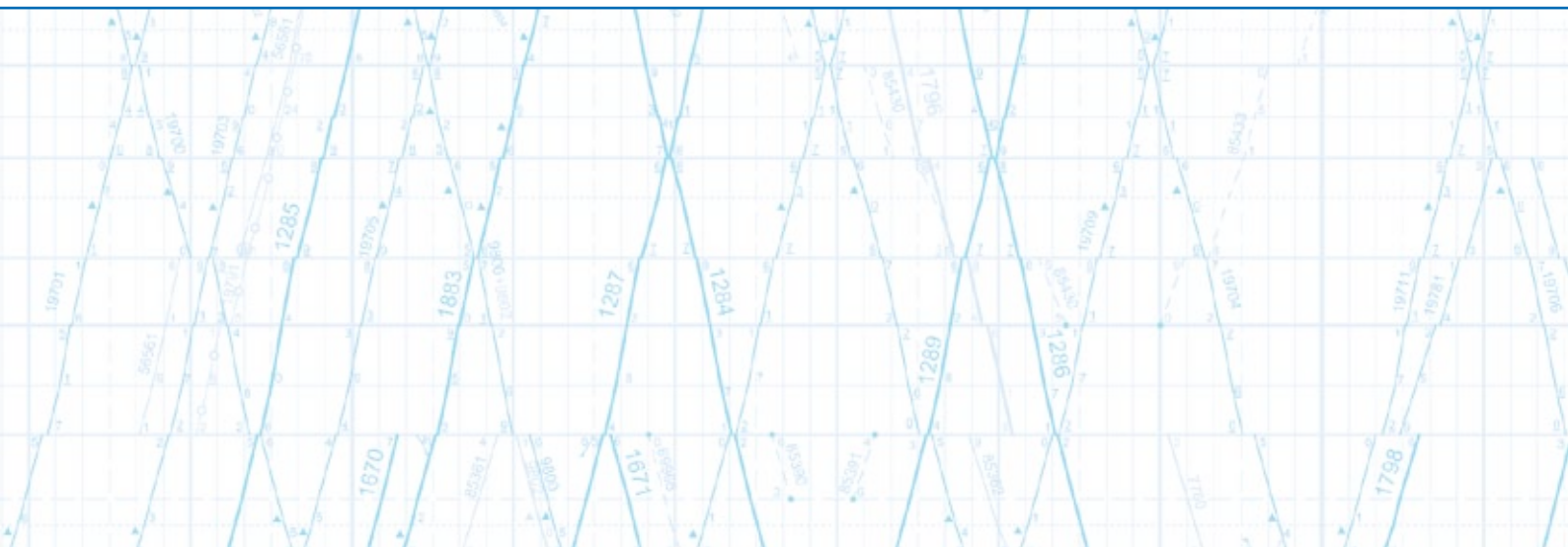


A significant item with substantial effect on SŽDC's revenues is revenue resulting from the SŽDC remission (the so-called "debt remission") pursuant to Government Resolution No. 1553 dated 30 November 2005. The "debt remission" is implemented on a contractual basis with the Ministry of Finance and represents a book entry only, without any receipt of financial means. The amount of the "remission" in 2010 was significantly lower than in previous years.

The most significant expense item represents operating expenses for consumption, i.e. material consumption, our own energy consumption and services. The area of services mainly includes expenses related to ensuring the operation of the railway infrastructure – rail maintenance (on a contractual basis with ČD, a.s.), SŽDC's own expenses related to rail maintenance, and expenses for external repair work and maintenance, especially for ensuring operability of the railway infrastructure, including the expenses incurred due to flood damage remediation.

SŽDC's personnel expenses include wage expenses, social security expenses and other social expenses.

One of the significant operating expenses relates to the depreciation of the railway infrastructure.



The balance of other SŽDC's operating revenues and expenses includes other revenue and expense items, e.g. revenues from the sale of fixed assets and material reduced by their net book value, the difference between revenues and expenses from the sale of electrical traction and non-traction power, revenues from external outputs and leases, activation, revenues from salvaged material, taxes and fees, changes in provisions and allowances, property and liability insurance.

Interest expenses result mainly from bank loans, taken over from the former Czech Railways, state organization, and from bonds issued by SŽDC at the nominal value of CZK 7,000 million in 2004. As specified in the Annex to the financial statements, this interest is paid to bank institutions by the Ministry of Finance on behalf of SŽDC. SŽDC only pays from its own sources all expenses, including the interest, related to the loan agreement signed with the Czech Savings Bank, a.s., designated for rationalization projects pertaining to the railway infrastructure.

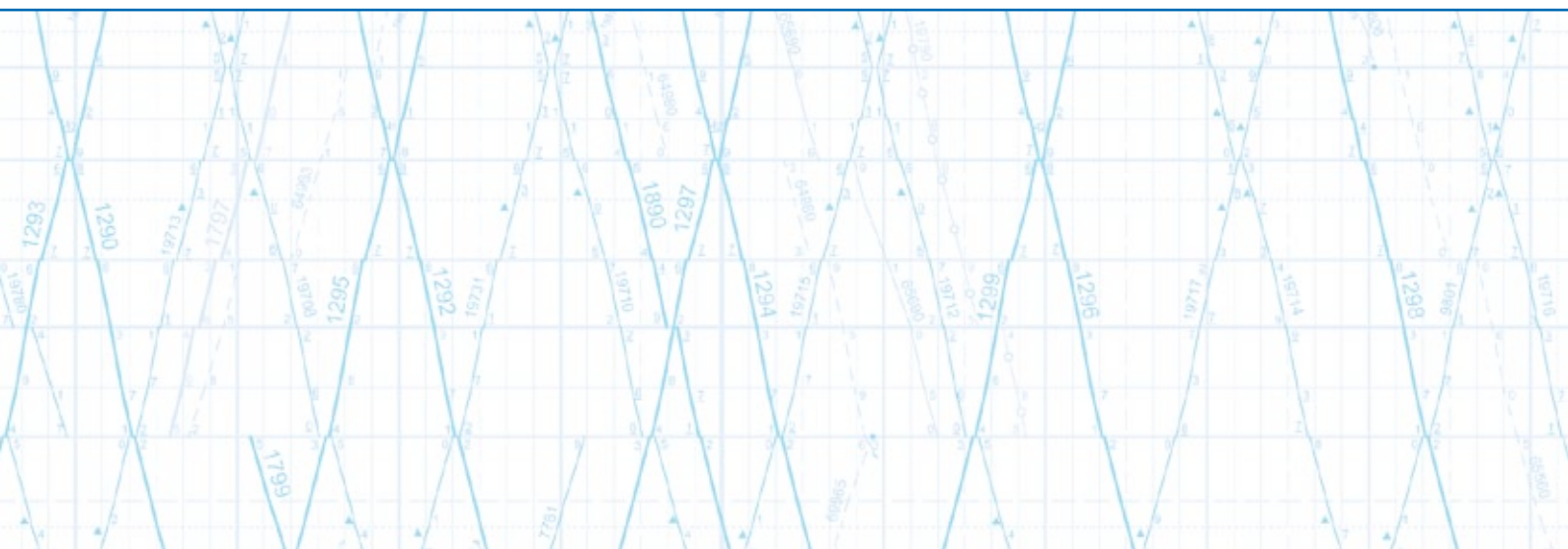
Exchange rate differences arise from foreign currency liabilities, loans and interest, re-translated using the exchange rate valid as at 31 December 2010. Given that throughout 2010 the Czech currency strengthened against the euro, in which most loans taken over from the former Czech Railways, state organization, were denominated, the Czech crown value of these liabilities decreased as a result and the difference was, in line with applicable regulations, recognized as revenue.

Extraordinary profit/loss is produced by extraordinary expenses related to net book value of fixed assets due to the damage caused by a natural disaster – flood to the railway superstructure of the track section Mořkov – Nový Jičín upper station. In consequence of this event, following the Rail Authority Decision No. DUCR-49649/10/Le, the regional line of Hostašovice – Nový Jičín upper station, which included the section of the damaged track, was cancelled.

The 2010 profit/loss also includes a tax revenue due to a deferred tax receivable. Items of the deferred tax are included in the notes to the financial statements.

#### **F. Projected economic and financial situation in 2011**

As in previous years, SŽDC's performance in 2011 will be largely influenced by the costs of ensuring operation and operability of the railway infrastructure. These costs are covered by the revenues from track access charges; however, the current amount of the collected charges is insufficient to cover SŽDC costs of the operation, maintenance and further development. As of 1 January 2009, the maximum prices for the track access decreased by 20% both in passenger and freight transport. The maximum price reduction, together with the decline in freight business, as compared to 2008, is markedly reflected in 2009 and 2010 in the decline in revenues from the track access, as well as in the decline of related financial income. Other sources to cover the cost of providing the operation and operability of the railway

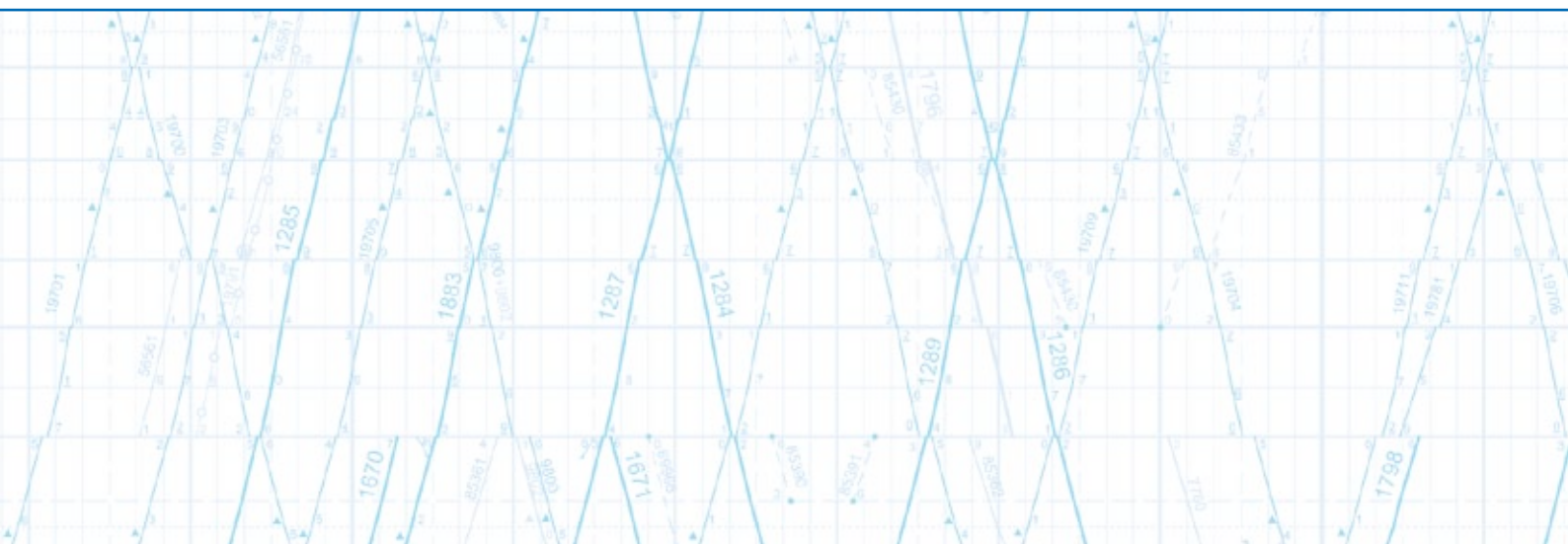




infrastructure are SFTI subsidies and subsidies for the railway infrastructure from the Ministry of Transport. As in 2009 and 2010, non-investment subsidies for the railway infrastructure granted by the Ministry of Transport, not covered by SFTI, will cover the financial deficit from the track access charge. SŽDC's financial results are also affected by the amount of SŽDC's liabilities to the state approved by the Government – the so-called "debt remission", the amount of asset depreciation, creation and reversal of provisions and allowances, the impact of exchange rate differences from converted payments, and the balance of loans and interest taken over from the Czech Railways, state organization.

SŽDC's financial performance in 2011 shall be positively affected by the anticipated savings resulting from adopted internal cost-saving measures in the expenditure area of the operation and operability of the railway infrastructure, and by savings based on the new draft strategy of the central management of public contracts adopted by SŽDC. The new strategy is based on the implementation of the central management of public contracts for selected commodities in the environment of SŽDC and its organization units. It refers to a centrally administered purchase of commodities, services and investments following strictly set principles. All operations pertaining to central purchases must be financially secured.

The company's financial position in 2011 will be affected by the transfer of service staff from the Czech Railways, joint-stock company, to SŽDC. This change will be markedly reflected in the structure and in the amount of relevant expense items compared to previous years. The transfer of approximately nine thousand employees from the Czech Railways, joint-stock company, to SŽDC, ensuring service and operation control of the railway infrastructure, will result in an increase in personnel expenses and, on the other hand, in a reduction in service expenses incurred in the operation consumption. As of the transfer date, SŽDC's core staff will perform these tasks and the company will not have to pay the Czech Railways, joint-stock company, that has currently provided these services.



## XI. HUMAN RESOURCES, PAYROLL AND BENEFITS

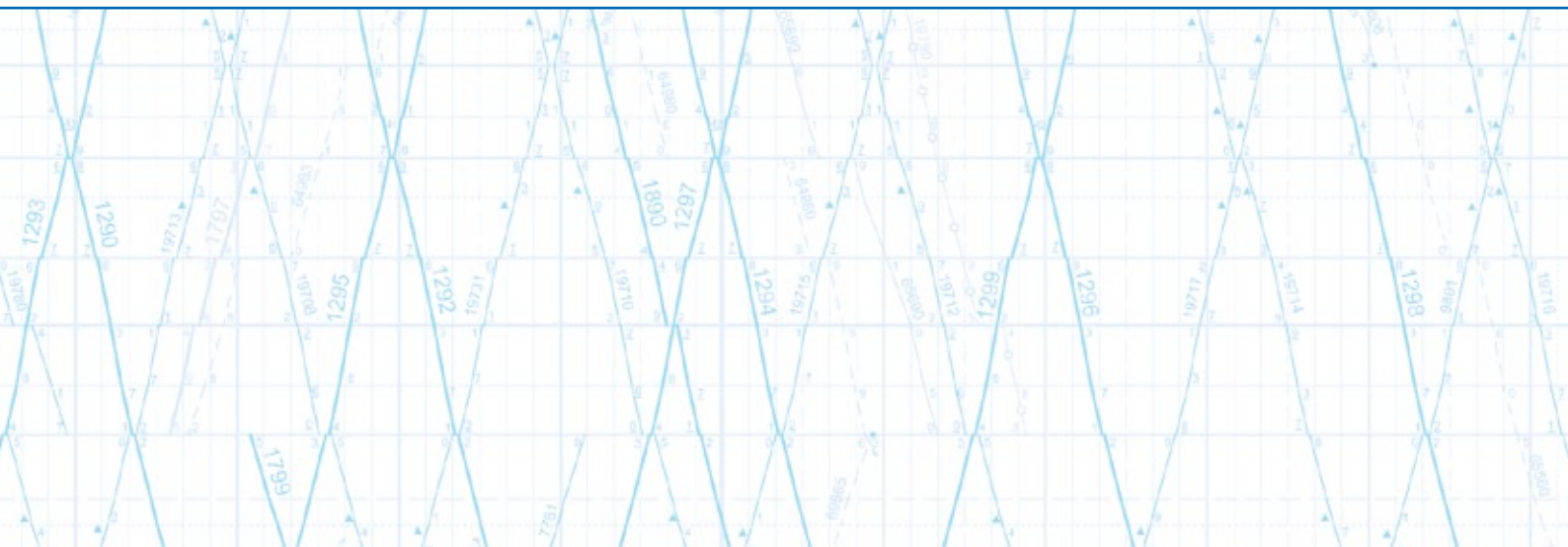
As at 1 January 2010, SŽDC had 9,764 employees, assigned to 21 organizational units, according to their positions and regions, and to the headquarters playing a strategic and organizational role in the organization. Throughout the year, the optimization of the headcount continued, which resulted in the reduction in personnel expenses share. As at 31 December 2010, SŽDC had 8,795 employees.

In terms of remuneration in 2010, there was a uniform payroll system applied, resulting from the SŽDC Company Collective Agreement for the period 2009–2013. Within the collective bargaining, a third amendment to the Company Collective Agreement was negotiated, specifying the severance pay for retirement-age employees, and a fourth amendment to the Company Collective Agreement specified the remuneration method for 2011 in line with the original version.

The education field in 2010 focused on obligatory staff training for employees in maintenance and repair of the railway infrastructure in the form of reassessing the extent of the required preparation and test periodicity. The control activity focused on providing employee training and professional skills of lecturers. Other forms of education mostly offered seminars and courses on the topics of amended legal regulations and their application for special-task workers.

SŽDC staff was provided with preventive medical care through a selected health-care facility. In line with applicable legal regulations, including the Company Collective Agreement, throughout the year employee benefits were made available; e.g. the possibility to obtain the employer's contribution to the supplementary pension insurance and life insurance. The Cultural and Social Needs Fund also contributed to meal vouchers, cultural and sports activities, including the participation in international railway events and vacations with the employer's contribution, etc. Funds from the Cultural and Social Needs Fund were used in accordance with adopted principles for the creation and utilization of the Cultural and Social Needs Fund for 2010.

In the area of occupational health and safety protection, attention was paid to eliminating defects that could become a possible cause of an accident. There were no serious job-related injuries in 2010. Unfortunately at the very beginning of 2010, a fatal accident occurred due to harsh weather conditions. During 2010, risks were re-assessed and working tasks with a potentially higher risk of injury were re-classified.



## XII. ENVIRONMENTAL PROTECTION

Environmental improvement and protection represent daily tasks for SŽDC. The environmental field in the Czech Republic is regulated both by legal regulations of the European Community and by national legislation. SŽDC meets the legal requirements accordingly, e.g. by drafting internal directives and guidelines. Internal guidelines pertaining to SŽDC's activities that might affect the environment are implemented across all levels of management, i.e. from SŽDC Headquarters to relevant organization units. The main pillars of the environmental protection, including the public health protection, comprise waste and water management, air protection against pollutants, nature and landscape protection, prevention and handling of emergency situations, noise and vibration issues.

### 1. Waste management

In 2010, the "Plans of SŽDC Waste Management" were adopted by all regions and the capital of Prague. SŽDC recorded a year-on-year decrease in the volume of disposed other waste ("O") and hazardous waste ("N").

### 2. Water management

There were discussions e.g. about payments for draining rainwater from national and regional rail, including fixed installations necessary to directly ensure safety and continuity of rail transport, and pursuant to Water Act No. 274/2001 Coll., on water supply and sewerage systems, together with selected rulings, SŽDC is to be exempt from these payments.

### 3. Air protection against pollutants

As regards the air protection against pollutants, SŽDC observes respective legal regulations. Where it was considered efficient, the heating medium of solid fuel is being replaced with gas; old stationary sources of air pollution are also replaced with new sources with higher efficiency and lower emissions, in particular with the objective to save costs and to reduce negative impacts on the environment.

### Volume of waste from SŽDC's production in 2009 and 2010

Waste hand-over to authorized firms	(volume in tonnes)		
	2009	2010	difference
O – other waste	41,499	28,620	-12,879
N – hazardous waste	2,867	1,442	-1,425
<b>Total O + N</b>	<b>44,366</b>	<b>30,062</b>	<b>-14,304</b>



#### 4. Nature and landscape protection

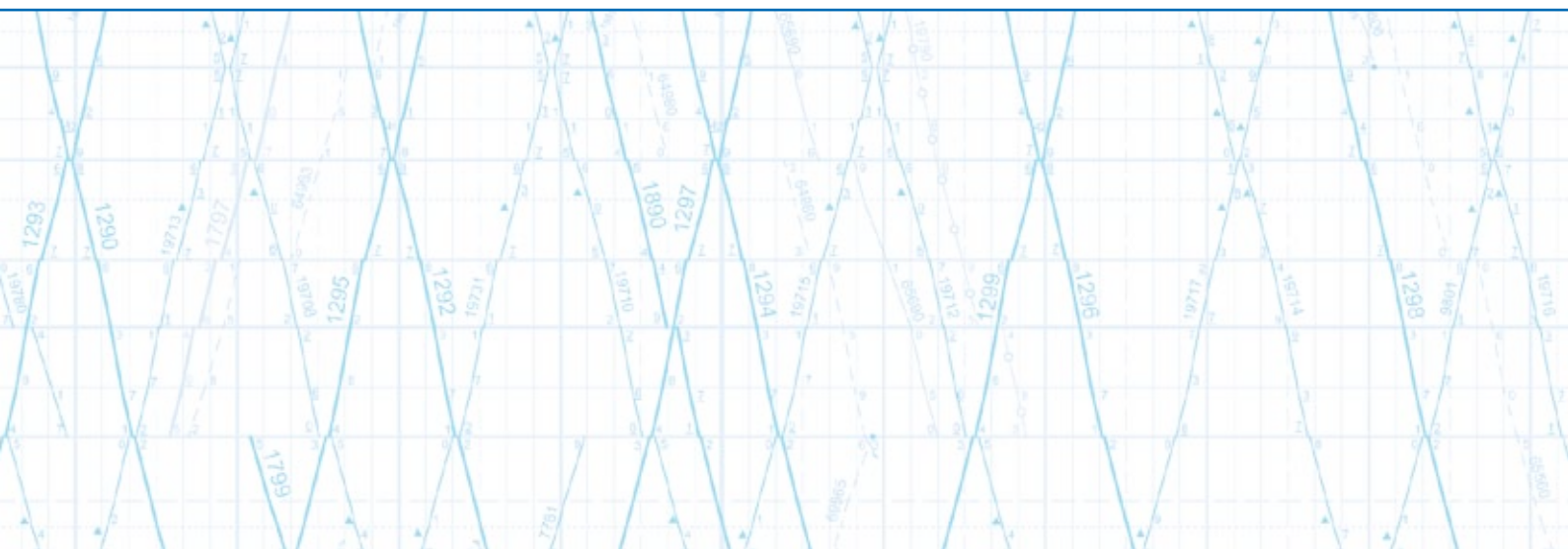
Towards the end of 2009, legislation in the area of protecting trees growing outside woods (Amendment to Act No. 114/1992 Coll., on Nature and Landscape Protection) was tightened, when in most cases the original "notification" about woodcutting was replaced with an "application", which actually complicates, protracts and increases expenses incurred due to necessary intervention in connection with the maintenance of the passing clearance of the railway infrastructure. SŽDC also launched the preparation of a more efficient maintenance system of lower and higher vegetation in relation to the railway infrastructure for the following period.

#### 5. Prevention and handling of emergency situations

SŽDC complies with applicable legislation and takes precautionary measures leading to minimizing potential risks, especially during accidents affecting the environment. In 2010, SŽDC registered 75 accidents of fluid leakage from traction units of carriers, which were always eliminated without affecting the environment. Unfortunately, more leakages seem to be due to the theft of precious metals from chokes and transformers, which jeopardise the rail operation as well as the environment – especially the soil and ground water. Of the total of 75 registered accidents, 10 cases were due to those thefts.

#### 6. Noise and vibration

In addition to the implementation of passive measures in modernized corridor sections (construction of noise barriers, installation of windows with better sound insulation), work continued on gradual elimination of the so-called old noise interference (e.g. in Tišnov, district of Brno-country).



## XIII. RESEARCH AND DEVELOPMENT

SŽDC as the project coordinator in cooperation with the University of Pardubice and ČD – Telematika a.s. participated in 2007–2010 in the project of the Ministry of Transport titled “Certification of the satellite navigation system GALILEO for rail telematics applications”. The objective of the project was to develop a procedure of the certification of the satellite navigation system Galileo to be utilized in rail telematics applications – i.e. both in information technologies and safety-related systems (signalling installations, protection of workers working on the tracks, etc.), including pilot testing of selected procedures of certification in laboratories and on a testing track section. The project results were presented at national and international conferences, symposiums and seminars, or as articles in specialized periodicals. More than 50 articles were published. The achieved project results were agreed upon during consultations with European specialists in rail safety. The results were also discussed during a meeting of the international group of experts, UIC Galileo Application for Rail (Paris), aimed to define a strategy for certification EGNOS/Galileo to be utilized in safety-related applications in land transport.

The project significantly contributed to the future utilization of satellite systems EGNOS and Galileo in land safety-relevant systems (railway, road transport, control of industrial machines). The implementation of satellite systems in safety applications (particularly the rail signalling installations) will lead to a significant decrease in investments and financial costs of the operation and maintenance of lines, enhanced transport safety, efficient utilization of track path capacity, higher interoperability and productivity of operation.

Meeting the project objectives resulted in the acceleration of the advancement of new telematics services, focused primarily on the railway, increased efficiency of state administration investments in the transport infrastructure, and development of new services of the European programme Galileo.

### Telecommunication and Signalling Installations

Technology used for the communication on rail and to accelerate and to enhance rail operation safety

- 1 axle counter sensor – part of the points-device detecting clearance of the line
- 2 aerial system of track radio station
- 3 an outdoor phone object and an auxiliary control place for the on-the-spot attendance of the station interlocking equipment

1



2



3





## XIV. INTERNATIONAL RELATIONS

SŽDC continues to view international cooperation as one of its most significant activities since it is well aware that isolated railway companies could never stand up to the competition on the European transport scale. The Czech Republic, as an EU member, has committed to building interoperable corridors with the objective to connect our railway lines with international routes of Europe-wide significance.

Similarly to the previous years, in 2010 SŽDC continued cooperation with international railway organizations, European institutions and other foreign companies, especially from the neighbouring countries.

### Cooperation with international railway organizations and european institutions

#### International Union of Railways (UIC)

As in previous years, SŽDC focused on active involvement in the affairs of the International Union of Railways (UIC). SŽDC has been a full member of this organization for a number of years. Following the subsequent transfer of further activities from the Czech Railways, joint-stock company, SŽDC gets more and more involved in UIC working forums and platforms, in particular the Infrastructure Forum and the Environmental Platform. In 2010, the Infrastructure Forum transformed into an extended working body called the Rail System Forum; an SŽDC's representative is one of the new Steering Committee members.

SŽDC's experts continued their work on ongoing projects and got involved in UIC projects which were launched in 2010:

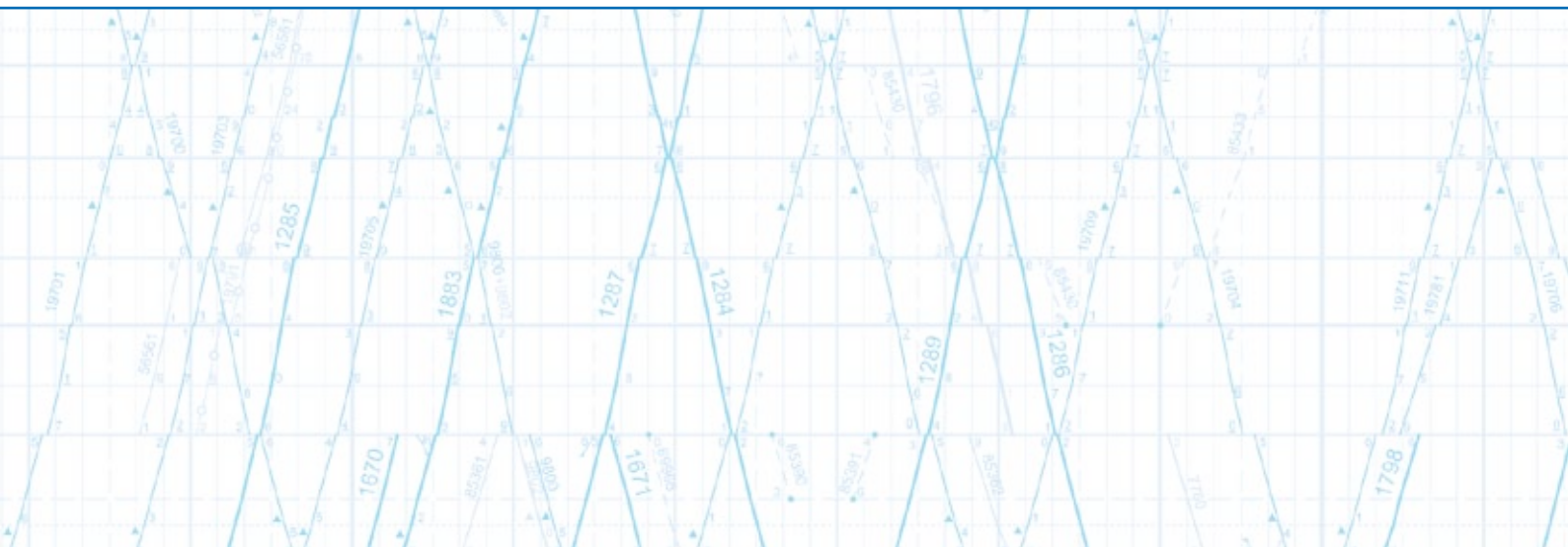
- Influence of USP on track behaviour; the objective of this project is the standardization of the ballasted track with pads under sleepers; there are two test sections in the Czech Republic.
- Contact Strip Wire Interaction of Materials; better understanding of effects of the wear-and-tear and damage of different materials of the contact strips on different materials of the over-head wire and standardization of suitable solutions.
- ERTMS – Implementation Benchmark; 3 different comparative segments have been defined. Collecting and drawing up the technical documentation in order to maintain and to enhance efficiency of the energy subsystem while reducing total costs.
- GSM-R – Network Management; harmonization of interconnection and roaming conditions.

#### Community of European Railway and Infrastructure Companies (CER)

SŽDC has been a member from the very beginning. CER associates over 75 railway organizations, both carriers and infrastructure managers from EU countries and associated countries (Croatia, Macedonia and Turkey) as well as from the west-Balkan countries, Norway and Switzerland. CER is still considered the most influential association of railway companies in Brussels. SŽDC's experts are members of many CER working groups (Infrastructure Interest Group, Human Resources Group, CER/ERA and others).

#### Association of European Infrastructure Managers (RNE)

SŽDC has been an RNE member since 2009. This association is represented by European infrastructure managers, rail operators and path



capacity allocators; a total of 38 companies from 27 European countries which operate 230,000 km of railway lines. The main lines for the transit transport have been divided into 11 RNE corridors, where conditions enabling the simplest relations between infrastructure managers and carriers are created. Two of these eleven RNE corridors run across the territory of the Czech Republic. The corridor manager of one of them is an SŽDC's representative. RNE holds regular working groups, e.g. Timetable – coordinating the preparation of timetables, Network Statement – creating and maintaining a uniform structure of the Network Statement which is applicable for all members. The working group „Legal Matters“ discusses, among others, viewpoints of infrastructure managers concerning anticipated EU legal regulations. The RNE's main objective is to facilitate carriers' access to the infrastructure for international transport. From this perspective, it makes the present implementation of the technical specifications of interoperability (TAF/TAP TSI) highly topical. The new products created or utilized by RNE, which are to facilitate the communication with carriers, include the „Pathfinder“ used for the coordination of interstate timetables, „Europtrails“ monitoring and assessing train rides and „EICIS“ designated to make preliminary calculations of track access charges in Europe.

In 2010, SŽDC became a member of the **COLPOFER** association with the objective to thoroughly assess and to test the capability of this organization to enhance the rail safety.

In 2010, SŽDC's experts participated, together with the Ministry of Transport, in legislative consultations related to directives governing

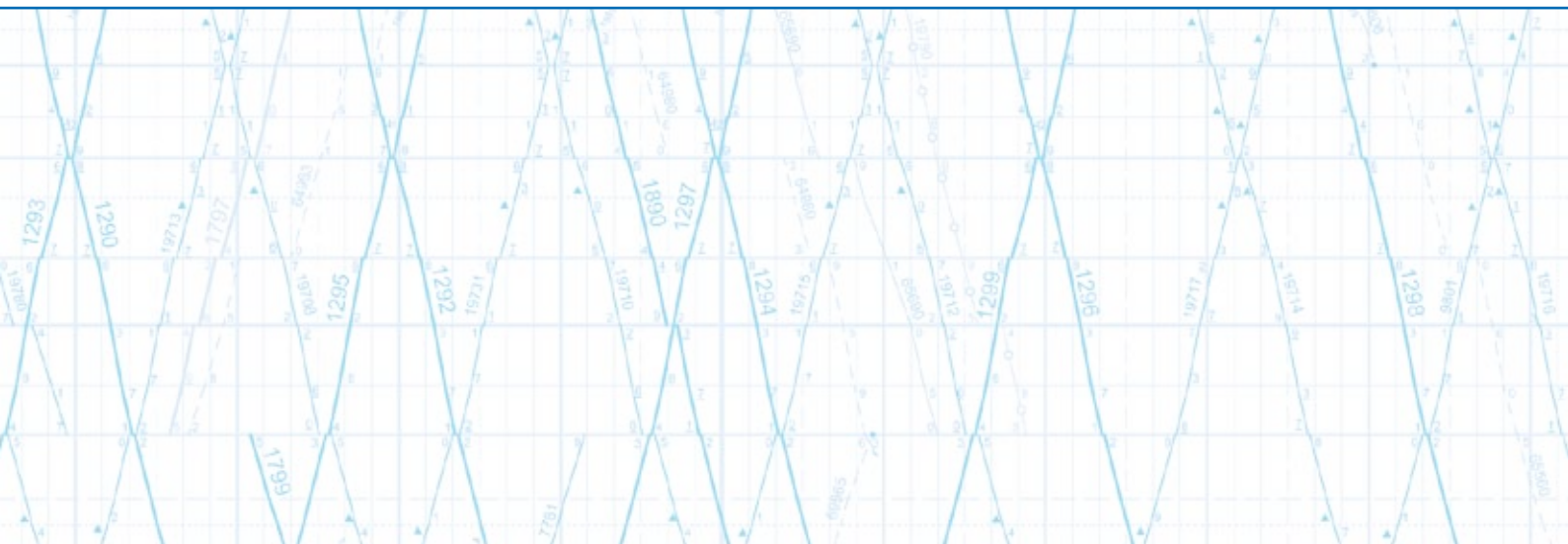
the railway transport. The Directive on the Interoperability of EU Railway Network came into force; it provides better conditions to achieve a technically integrated European railway network and, by applying these rules in the Czech Republic, the Czech railway network will become more attractive in terms of significant transit transport. The experts also attended a meeting of the EC Committee for Railway Interoperability and Safety and discussions on the paths of the European freight corridors and on the revision of the TEN-T network.

Together with ČD, a.s., which represents the state in the international organization OSŽD, SŽDC's representatives attended a meeting of this organization in the commission „Infrastructure and Rolling Stock“. SŽDC cooperates with CEN and CENELEC in the issue of standards and regulations.

#### Bilateral and multilateral cooperation

In the area of bilateral relations, meetings were organized at working levels, especially with regard to issues dealing with the coordination of timetables, operation interruptions, investments and improvements of cross-border services.

In 2010, the Slovak city of Senec also hosted a traditional meeting of leaders and specialists in the railway infrastructure from the Visegrad Group countries, i.e. from Hungary, Poland, Slovakia and the Czech Republic. The technical topics were discussed in four main areas: diagnostics of the railway infrastructure, safety at level crossings, rail traffic control and development of control systems of railway companies in the respective V4 countries.



## XV. PROJECTED DEVELOPMENT

SŽDC wants to become a modern, flexible and customer-oriented organization ensuring the development of an operable, modern, capacity-providing and safe railway network as an integral part of the European Railway System. SŽDC strives to create conditions for dynamic development of the liberalized market in the railway transport. SŽDC's long-term objectives result from its function, which consists of meeting the obligations of the rail operator and owner, i.e. to ensure the operability, modernization and development of the railway network.

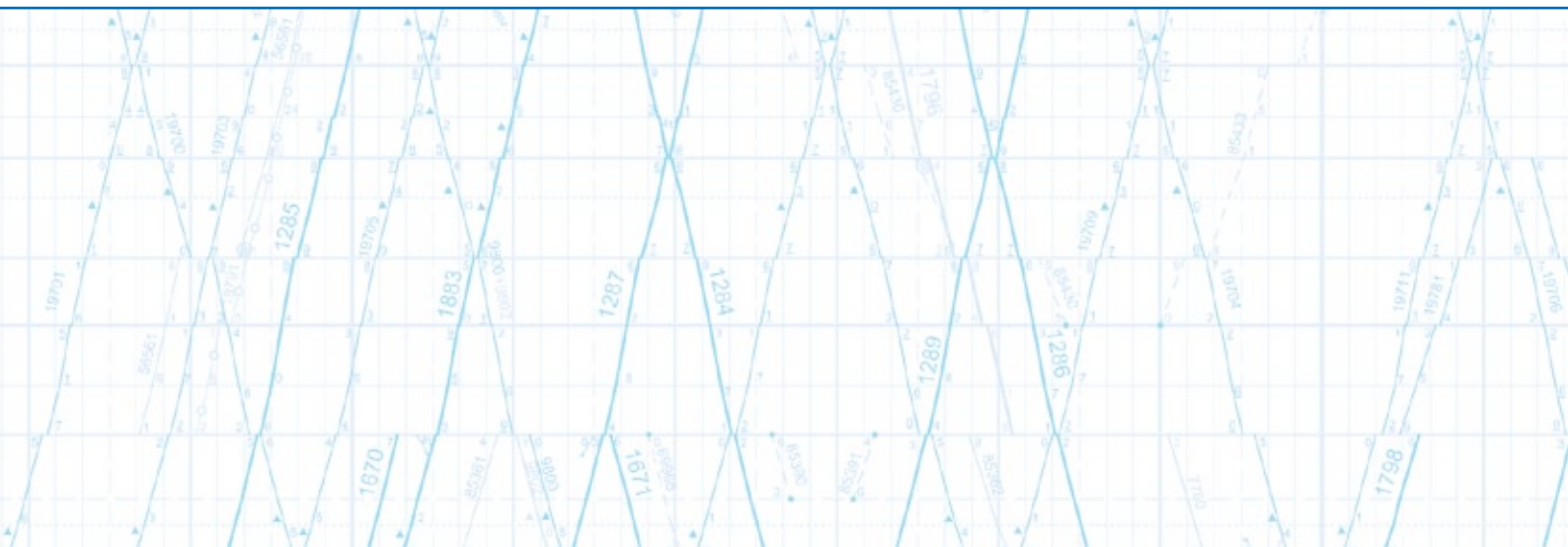
An objective in the area of operability is to introduce effective and conceptual administration of the railway infrastructure so that it is possible to minimize operating expenses while maintaining safe and smooth operation. At the same time, risks are constantly being identified and eliminated.

Ensuring the operability of the railway infrastructure is closely related to its modernization and development. The modernization of railway transit corridors and lines integrated into the European railway system, the enhancement of track speed and capacity in other selected railway sections and in railway junctions are viewed as the means of enhancing the attractiveness of railway transport and its competitiveness with other transport modes. The whole area thus represents another important strategic goal which is the progressive modernization of selected railway sections with the emphasis on the concept and financial

effectiveness of relevant projects and the optimization of the scope and parameters of the railway network reflecting the state transport policy and the current and prospective demand for rail transport.

Long-term objectives include the harmonization of transport market conditions by promoting a non-discriminatory approach to carriers.

In 2011, SŽDC's key task will be to continue the work which started in 2010 and relates to the analysis and the optimization of the development and the maintenance of the railway network, "Transport strategy as an inevitable part of the development of the Czech Republic by 2025" (super-strategy), and to match the needs to realistic funding sources. Projects with the highest added value will be prioritized. The method of transparent specification of the importance of relevant identified projects (based on the respective material) is a multi-criteria analysis. This method was preferred to the simple cost-benefit analysis (CBA analysis) so that overall benefits of the implementation, such as the effect on the regional development, employment, nature and landscape, etc. could be taken into consideration. Also, in terms of the European significance it will be assessed whether the project is part of the trans-European transport network or a topic of another international agreement. The revised Policy of the trans-European transport network, the new European transport policy and the Cohesion Policy for the next period will be taken into consideration as well. In addition,



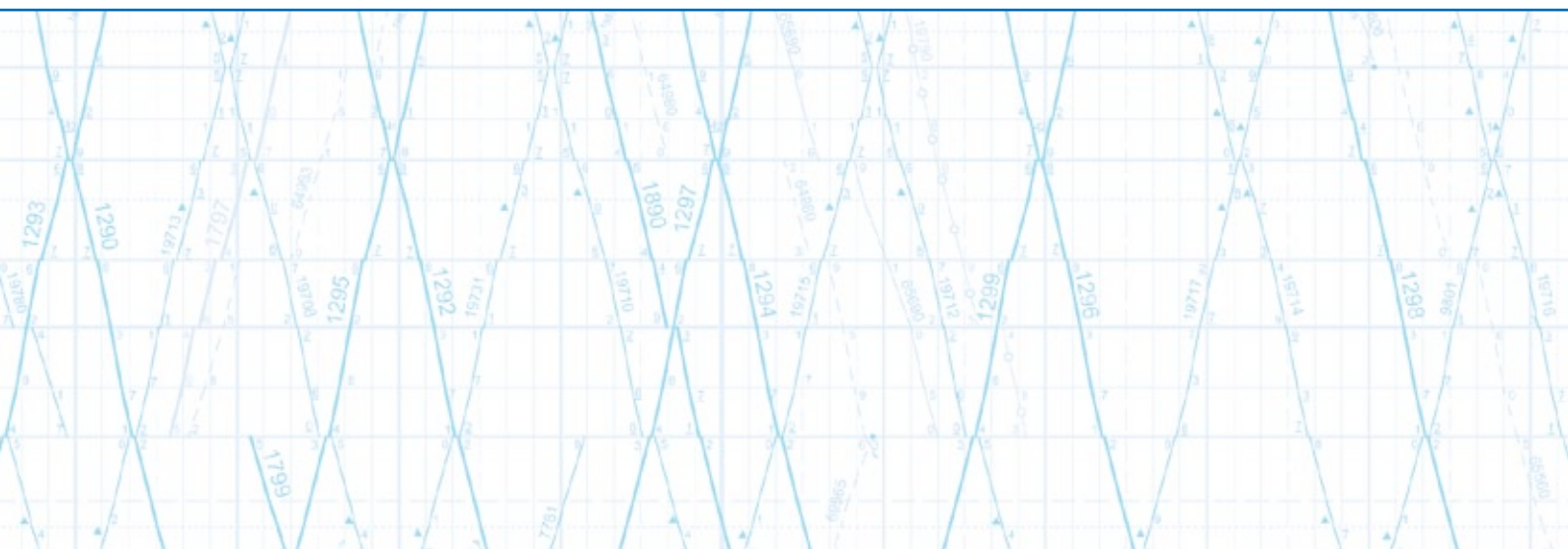


it will be necessary to focus on drawing of all allocated funds under the Operational Programme Transport, which means to prepare and to launch the implementation of respective projects not later than by 2013. Simultaneously, new ways and sources of funding the transport infrastructure will be searched for.

A radical step in line with the implementation of the First Railway Package of the European Commission to create a competitive environment in the railway transport in the Czech Republic will be the transfer of the remaining service staff from the Czech Railways, joint-stock company, to SŽDC. The transfer is to be executed as at 1 July 2011 and it shall involve approximately nine thousand employees providing service and operation control of the railway infrastructure.

Simultaneously with the implementation of the above mentioned priority objectives, SŽDC's objective is to contribute to minimizing the costliness of the railway transport through the so-called rationalization projects. They mainly involve the implementation of remote control signalling installations in longer railway sections and the replacement of mechanical and electromechanical signalling installations.

In 2011, we will continue the process of assessment and streamlining the utilization of those railways that do not demonstrate sufficient demand for the railway transport, do not provide principal transport services and do not operate adequate freight transport.



# XVI. 2010 FINANCIAL PART

## INDEPENDENT AUDITOR'S REPORT

### To the Management of

### Správa železniční dopravní cesty, státní organizace

Having its registered office at: Praha 1, Nové Město, Dlážďená 1003/7, 110 00

Identification number: 70994234

### Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 25 May 2011 on the financial statements which are included in this annual report in Section XVI.:

"We have audited the accompanying financial statements of Správy železniční dopravní cesty, státní organizace ("SŽDC"), which comprise the balance sheet as of 31 December 2010, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

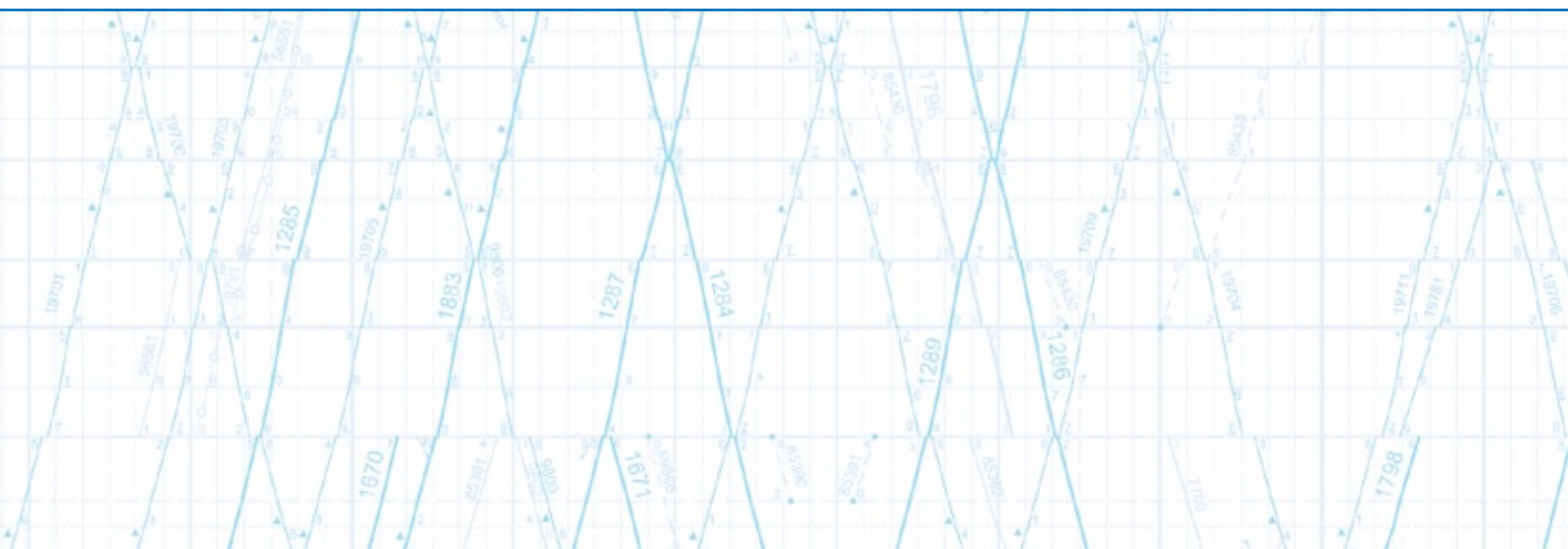
### Statutory Body's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

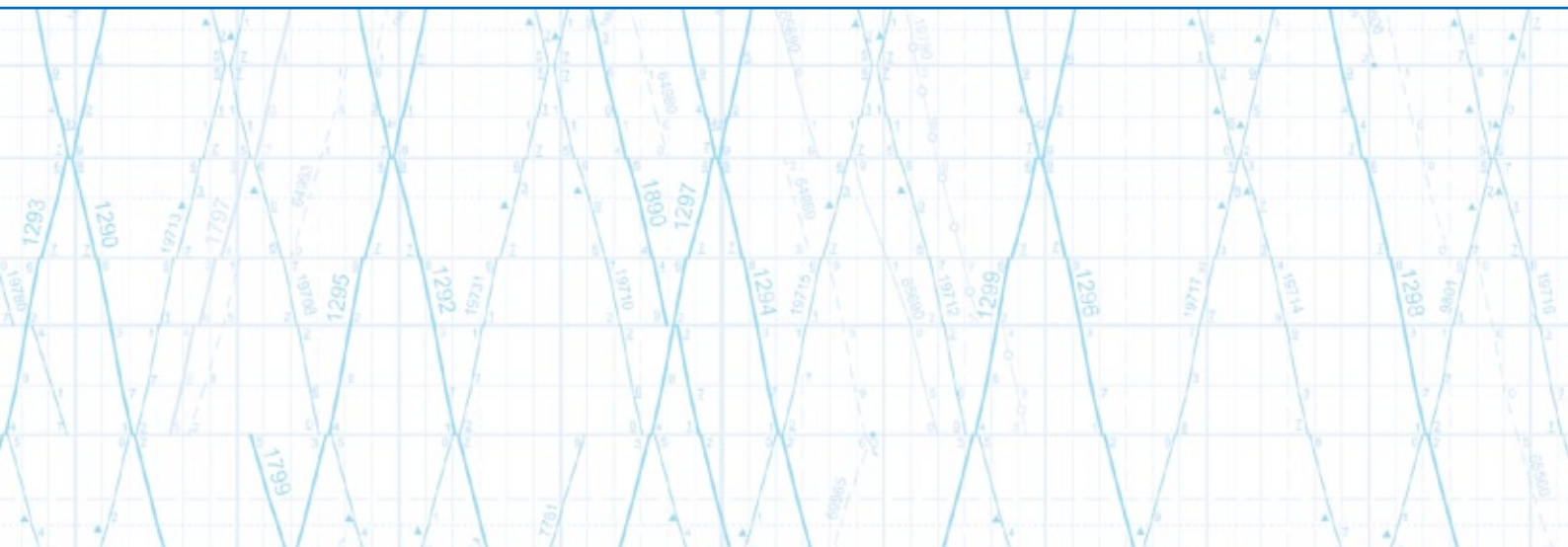


We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

We draw attention to the following disclosures provided in the notes to the financial statements. Our opinion is not modified in respect of these matters.

As discussed in Note 7.1. to the financial statements, the bulk of the payables of České dráhy, státní organizace were taken over by SŽDC under Act No. 77/2002 Coll., as of 1 January 2003. As further discussed in Notes 3.17 and 4.11.3 to the financial statements, the assumed long-term payables to banks are settled according to repayment schedules by the Ministry of Finance and are recharged as long-term payables to the State. The net cash inflows from SŽDC's operations are not sufficient to settle these long-term payables and hence the settlement of these payables is the subject of Czech Government Resolution No. 1553 of 30 November 2005 which set out the approach to forgiving SŽDC's payables until they are fully settled. In 2010 and 2009, payables of CZK 3.75 billion and CZK 6.36 billion, respectively, were forgiven and this amount was recognised as part of other operating income. Pursuant to Act No. 77/2002 Coll., SŽDC's payables are guaranteed by the State.





As discussed in Note 7.4. to the financial statements, the useful lives of, and economic benefits associated with, the bulk of the existing fixed assets forming the railway infrastructure are dependent upon the availability of funding and future decisions regarding their renovation, modernisation, rationalisation, utilisation and pricing. Due to the existing uncertainties in the above areas, the ultimate useful lives of, and economic benefits associated with, the existing fixed assets cannot be determined and accordingly no valuation adjustments have been made in the financial statements.”

#### Report on the Annual Report

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

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

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

In Prague on 25 May 2011

Audit firm:

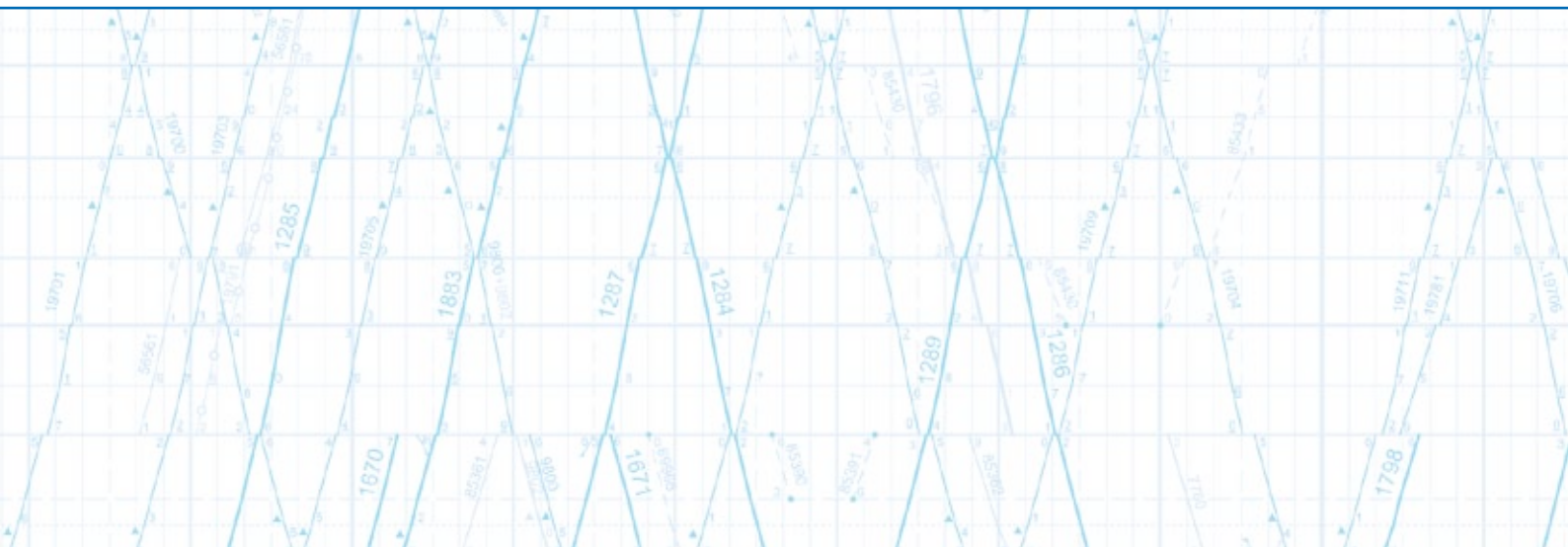
Statutory auditor:



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



Stanislav Staněk  
certificate no. 1674



## Balance Sheet Full Version

As of 31 Dec 2010 (in CZK thousand)

		31 Dec 2010		31 Dec 2009	
		Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>		<b>180,980,178</b>	<b>89,586,341</b>	<b>91,393,837</b>	<b>98,100,631</b>
<b>B. Fixed assets</b>		<b>174,737,032</b>	<b>88,991,901</b>	<b>85,745,131</b>	<b>90,766,290</b>
<b>B.I. Intangible fixed assets</b>		<b>231,608</b>	<b>137,630</b>	<b>93,978</b>	<b>104,398</b>
B.I.3.	Software	228,945	136,577	92,368	102,467
B.I.6.	Other intangible fixed assets	2,654	1,053	1,601	1,931
B.I.8.	Prepayments for intangible fixed assets	9		9	
<b>B.II. Tangible fixed assets</b>		<b>174,505,424</b>	<b>88,854,271</b>	<b>85,651,153</b>	<b>90,661,892</b>
B.II.1.	Land	6,529,065	40,974	6,488,091	6,387,811
B.II.2.	Structures	135,068,116	75,120,301	59,947,815	61,591,473
B.II.3.	Individual movable assets and sets of movable assets	20,372,877	12,258,947	8,113,930	8,385,232
B.II.7.	Tangible fixed assets under construction	4,334,814	114,616	4,220,198	6,818,017
B.II.8.	Prepayments for tangible fixed assets	10,968		10,968	60,813
B.II.9.	Valuation difference on acquired assets	8,189,584	1,319,433	6,870,151	7,418,546
<b>C. Current assets</b>		<b>6,237,844</b>	<b>594,440</b>	<b>5,643,404</b>	<b>7,331,175</b>
<b>C.I. Inventories</b>		<b>283,961</b>	<b>73</b>	<b>283,888</b>	<b>269,083</b>
C.I.1.	Material	283,133	73	283,060	268,218
C.I.2.	Work in progress and semifinished goods	815		815	849
C.I.5.	Goods	13		13	12
C.I.6.	Prepayments for inventory				4
<b>C.II. Long-term receivables</b>		<b>56,637</b>		<b>56,637</b>	<b>2,192</b>
C.II.1.	Trade receivables	55,398		55,398	954
C.II.5.	Long-term prepayments made	1,239		1,239	1,238
<b>C.III. Short-term receivables</b>		<b>4,509,457</b>	<b>594,367</b>	<b>3,915,090</b>	<b>5,851,800</b>
C.III.1.	Trade receivables	2,467,410	522,215	1,945,195	2,621,153
C.III.6.	State - tax receivables	644,966		644,966	1,537,236
C.III.7.	Short-term prepayments made	124,059		124,059	122,004
C.III.8.	Estimated receivables	1,135,822	977	1,134,845	1,484,704
C.III.9.	Other receivables	137,200	71,175	66,025	86,703
<b>C.IV. Current financial assets</b>		<b>1,387,789</b>		<b>1,387,789</b>	<b>1,208,100</b>
C.IV.1.	Cash on hand	3,810		3,810	4,147
C.IV.2.	Cash at bank	1,383,979		1,383,979	1,203,953
<b>D. I. Other assets</b>		<b>5,302</b>		<b>5,302</b>	<b>3,166</b>
D.I.1.	Deferred expenses	3,666		3,666	2,686
D.I.3.	Accrued income	1,636		1,636	480

		31 Dec 2010	31 Dec 2009
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>91,393,837</b>	<b>98,100,631</b>
<b>A.</b>	<b>Equity</b>	<b>58,111,595</b>	<b>59,562,282</b>
<b>A.I.</b>	<b>Share capital</b>	<b>52,741,957</b>	<b>52,749,204</b>
A.I.1.	Share capital	52,741,957	52,749,204
<b>A.II.</b>	<b>Capital funds</b>	<b>906,091</b>	<b>779,089</b>
A.II.2.	Other capital funds	906,091	779,089
<b>A.III.</b>	<b>Statutory funds</b>	<b>1,005,997</b>	<b>1,072,452</b>
A.III.1.	Statutory reserve fund / Indivisible fund	973,638	1,038,720
A.III.2.	Statutory and other funds	32,359	33,732
<b>A.IV.</b>	<b>Retained earnings</b>	<b>4,961,537</b>	<b>6,669,801</b>
A.IV.1.	Accumulated profits brought forward	4,961,537	6,669,801
<b>A.V.</b>	<b>Profit or loss for the current period (+ -)</b>	<b>-1,503,987</b>	<b>-1,708,264</b>
<b>B.</b>	<b>Liabilities</b>	<b>32,912,032</b>	<b>38,233,482</b>
<b>B.I.</b>	<b>Reserves</b>	<b>1,143,977</b>	<b>323,655</b>
B.I.4.	Other reserves	1,143,977	323,655
<b>B.II.</b>	<b>Long-term liabilities</b>	<b>13,516,650</b>	<b>13,797,297</b>
B.II.1.	Trade payables	2,223,940	1,239,900
B.II.6.	Bonds issued	7,000,000	7,000,000
B.II.9.	Other payables	1,220,614	2,154,707
B.II.10.	Deferred tax liability	3,072,096	3,402,690
<b>B.III.</b>	<b>Short-term liabilities</b>	<b>5,560,694</b>	<b>9,187,215</b>
B.III.1.	Trade payables	3,088,589	6,056,274
B.III.5.	Payables to employees	254,893	256,469
B.III.6.	Social security and health insurance payables	118,290	122,769
B.III.7.	State - tax payables and subsidies	1,651,105	2,027,341
B.III.8.	Short-term prepayments received	103,110	90,771
B.III.10.	Estimated payables	282,268	559,989
B.III.11.	Other payables	62,439	73,602
<b>B.IV.</b>	<b>Bank loans and borrowings</b>	<b>12,690,711</b>	<b>14,925,315</b>
B.IV.1.	Long-term bank loans	11,821,600	14,246,947
B.IV.2.	Short-term bank loans	869,111	678,368
<b>C. I.</b>	<b>Other liabilities</b>	<b>370,210</b>	<b>304,867</b>
C.I.1.	Accrued expenses	281,463	268,027
C.I.2.	Deferred income	88,747	36,840



## Profit and Loss Account Structured by the Nature of Expanse Method

Year ended 31 Dec 2010 (in CZK thousand)

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
I.	Sales of goods	4	105
A.	Costs of goods sold	3	99
<b>+</b>	<b>Gross margin</b>	<b>1</b>	<b>6</b>
II.	Production	6,995,023	9,024,395
II.1.	Sales of own products and services	6,712,790	8,691,779
II.2.	Change in internally produced inventory	-34	-151
II.3.	Own work capitalised	282,267	332,767
B.	Purchased consumables and services	12,656,238	15,914,777
B.1.	Consumed material and energy	2,250,146	4,293,635
B.2.	Services	10,406,092	11,621,142
<b>+</b>	<b>Added value</b>	<b>-5 661,214</b>	<b>-6 890,376</b>
C.	Staff costs	4,621,834	4,706,583
C.1.	Payroll costs	3,329,101	3,377,908
C.2.	Remuneration to members of statutory bodies	1,698	1,170
C.3.	Social security and health insurance costs	1,065,619	1,096,174
C.4.	Social costs	225,416	231,331
D.	Taxes and charges	40,321	40,441
E.	Depreciation of intangible and tangible fixed assets	4,552,810	4,617,833
III.	Sales of fixed assets and material	156,859	206,441
III.1.	Sales of fixed assets	30,478	67,274
III.2.	Sales of material	126,381	139,167
F.	Net book value of fixed assets and material sold	182,105	155,483
F.1.	Net book value of sold fixed assets	88,008	18,462
F.2.	Book value of sold material	94,097	137,021
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	765,778	348,520
IV.	Other operating income	14,457,449	17,029,172
H.	Other operating expenses	108,505	82,059
<b>*</b>	<b>Operating profit or loss</b>	<b>-1 318,259</b>	<b>394,318</b>
VIII.	Income from current financial assets	307	937
X.	Interest income	7,985	36,996
N.	Interest expenses	912,577	1,016,152
XI.	Other financial income	608,614	364,969
O.	Other financial expenses	219,024	79,067
<b>*</b>	<b>Financial profit or loss</b>	<b>-514 695</b>	<b>-692 317</b>
Q.	Income tax on ordinary activities	-330 594	1,410,265
Q 2.	- deferred	-330 594	1,410,265
<b>**</b>	<b>Profit or loss from ordinary activities</b>	<b>-1,502,360</b>	<b>-1,708,264</b>
R.	Extraordinary expenses	1,627	
<b>*</b>	<b>Extraordinary profit or loss</b>	<b>-1 627</b>	
<b>***</b>	<b>Profit or loss for the current period (+/-)</b>	<b>-1,503,987</b>	<b>-1,708,264</b>
<b>****</b>	<b>Profit or loss before tax</b>	<b>-1,834,581</b>	<b>-297 999</b>

## Statement of Changes in Equity

Year ended 31 Dec 2010 (in CZK thousand)

	Share capital	Capital funds	Statutory reserve fund / Indivisible fund	Statutory and other funds	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
<b>Balance at 31 December 2008</b>	<b>52,542,494</b>	<b>655,656</b>	<b>926,418</b>	<b>18,467</b>	<b>5,694,390</b>		<b>1,123,021</b>	<b>60,960,446</b>
Received gift		18,885						18,885
Assets identified during stock counts		104,548						104,548
Free of charge transfers of assets and other transfers	218,251							218,251
Privatisation	-11,541							-11,541
Distribution of profit or loss			112,302	35,308	975,411		-1,123,021	
Use of the culture and social needs fund				-53,734				-53,734
Subsidies to the culture and social needs fund				33,691				33,691
Profit or loss for the current period							-1,708,264	-1,708,264
<b>Balance at 31 December 2009</b>	<b>52,749,204</b>	<b>779,089</b>	<b>1,038,720</b>	<b>33,732</b>	<b>6,669,801</b>		<b>-1 708,264</b>	<b>59,562,282</b>
Received gift		2,141						2,141
Assets identified during stock counts		124,861						124,861
Free of charge transfers of assets and other transfers	-8,383							-8,383
Privatisation	-9,049							-9,049
Distribution of profit or loss					-1,708,264		1,708,264	
Use of the culture and social needs fund				-60,025				-60,025
Subsidies to the culture and social needs fund			-65,082	58,652				-6,430
Subsidy to finance the purchase of business part	10,185							10,185
Profit or loss for the current period							-1,503,987	-1,503,987
<b>Balance at 31 December 2010</b>	<b>52,741,957</b>	<b>906,091</b>	<b>973,638</b>	<b>32,359</b>	<b>4,961,537</b>		<b>-1,503,987</b>	<b>58,111,595</b>

# Cash Flow Statement

Year ended 31 Dec 2010 (in CZK thousand)

		Year ended 31.12.2010	Year ended 31.12.2009
P.	Opening balance of cash and cash equivalents	1,208,100	3,256,046
	Cash flows from ordinary activities		
Z.	Profit or loss from ordinary activities before tax	-1,832,954	-297,999
A.1.	Adjustments for non-cash transactions	2,538,422	-458,170
A.1.1.	Depreciation of fixed assets	4,552,810	4,617,833
A.1.2.	Change in provisions and reserves	765,777	348,520
A.1.3.	Profit/(loss) on the sale of fixed assets	57,530	-53,128
A.1.5.	Interest expense and interest income	904,285	978,219
A.1.6.	Adjustments for other non-cash transactions	-3,741,980	-6,349,614
A.*	Net operating cash flow before changes in working capital	705,468	-756,169
A.2.	Change in working capital	-1,082,259	1,114,555
A.2.1.	Change in operating receivables and other assets	1,873,676	-363,803
A.2.2.	Change in operating payables and other liabilities	-2,941,107	1,511,924
A.2.3.	Change in inventories	-14,828	-33,566
A.**	Net cash flow from operations before tax and extraordinary items	-376,791	358,386
A.3.	Interest paid	-12,379	36,317
A.4.	Interest received	8,292	37,933
A.***	Net operating cash flows	-380,878	432,636
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-55,427	-2,718,949
B.2.	Proceeds from fixed assets sold	30,478	71,590
B.***	Net investment cash flows	-24,949	-2,647,359
	Cash flow from financial activities		
C.1.	Change in payables from financing	650,987	166,777
C.2.	Impact of changes in equity	-65,471	
C.2.1.	Cash increase in share capital	-5,446	
C.2.5.	Payments from capital funds	-60,025	
C.***	Net financial cash flows	585,516	166,777
F.	Net increase or decrease in cash and cash equivalents	179,689	-2,047,946
R.	Closing balance of cash and cash equivalents	1,387,789	1,208,100



# Notes to the Financial Statements for the Year ended 31 December 2010

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## **1. General Information**

### **1.1. Background Information**

Správa železniční dopravní cesty, státní organizace (hereinafter "SŽDC" or the "Company") was established on 1 January 2003 pursuant to Act No. 77/2002 Coll. (hereinafter the "Transformation Act") as one of two legal successors of České dráhy, státní organizace (hereinafter "ČD").

SŽDC was recorded in the Register of Companies maintained by the Municipal Court in Prague, Volume A, File 48384, as of 1 January 2003.

SŽDC's registered office is situated in Nové Město, Dlážděná 1003/7, Prague 1, 110 00.

The reporting period is the calendar year.

The financial statements have been prepared as of and for the year ended 31 December 2010.

### **1.2. Principal Operations**

SŽDC principally engages in operating the railway infrastructure and securing its operability, modernisation and development in accordance with the Transformation Act. The operability of the railway infrastructure throughout the year ended 31 December 2010 was provided by SŽDC's internal capacities. Only the service on the railway infrastructure, ie the traffic control at stations and railway tracks was provided by České dráhy, a.s., the contractual operator of the railway infrastructure, for SŽDC. The costs incurred as a result of these activities were billed to SŽDC.

SŽDC provides carriers with the railway infrastructure for use. Proceeds arising from the use of the railway infrastructure are predominantly realised with the key users, ČD, a.s. and ČD Cargo, a.s., as discussed in Note 7.3. SŽDC generates additional major revenues from subsidies as discussed in Note 3.11.

SŽDC is additionally involved in administering the assets and liabilities set out in Sections 20 and 38a of the Transformation Act. In addition to the assets forming the railway infrastructure, these principally involve assumed receivables and payables, including the loans of ČD, s.o., and the assets specified in the appendix to the Act that had been administered by the Czech Ministry of Transport until 30 June 2004.

After complying with all the conditions arising from Act No. 458/2000 Coll., as amended, the Energy Regulatory Office in Jihlava granted a licence for electricity distribution to the Company on 30 May 2007. The Company began conducting these activities on 1 July 2007. On 3 December 2007, the Company received a licence for electricity trading and started the trading on 1 January 2008.

On 1 July 2008, SŽDC assumed the role of the operator of the national railway infrastructure and regional railway infrastructure owned by the state including certain activities involved in the operation of the railway infrastructure.



### 1.3. SŽDC's Organisational Structure and Bodies

SŽDC is a standalone state organisation, is included in no group and does not hold any equity investments in any other businesses. SŽDC's bodies include the Managing Board, the Director General and the Audit Committee. Jan Komárek was the Director General until 30 September 2010 when he resigned. Since 1 October 2010, the Deputy Director General for auditing, Pavel Habarta, has been charged with managing SŽDC and acting on its behalf. In his absence, he is deputised by Bohuslav Navrátil. These Deputy Directors General were the statutory body of SŽDC as of 31 December 2010.

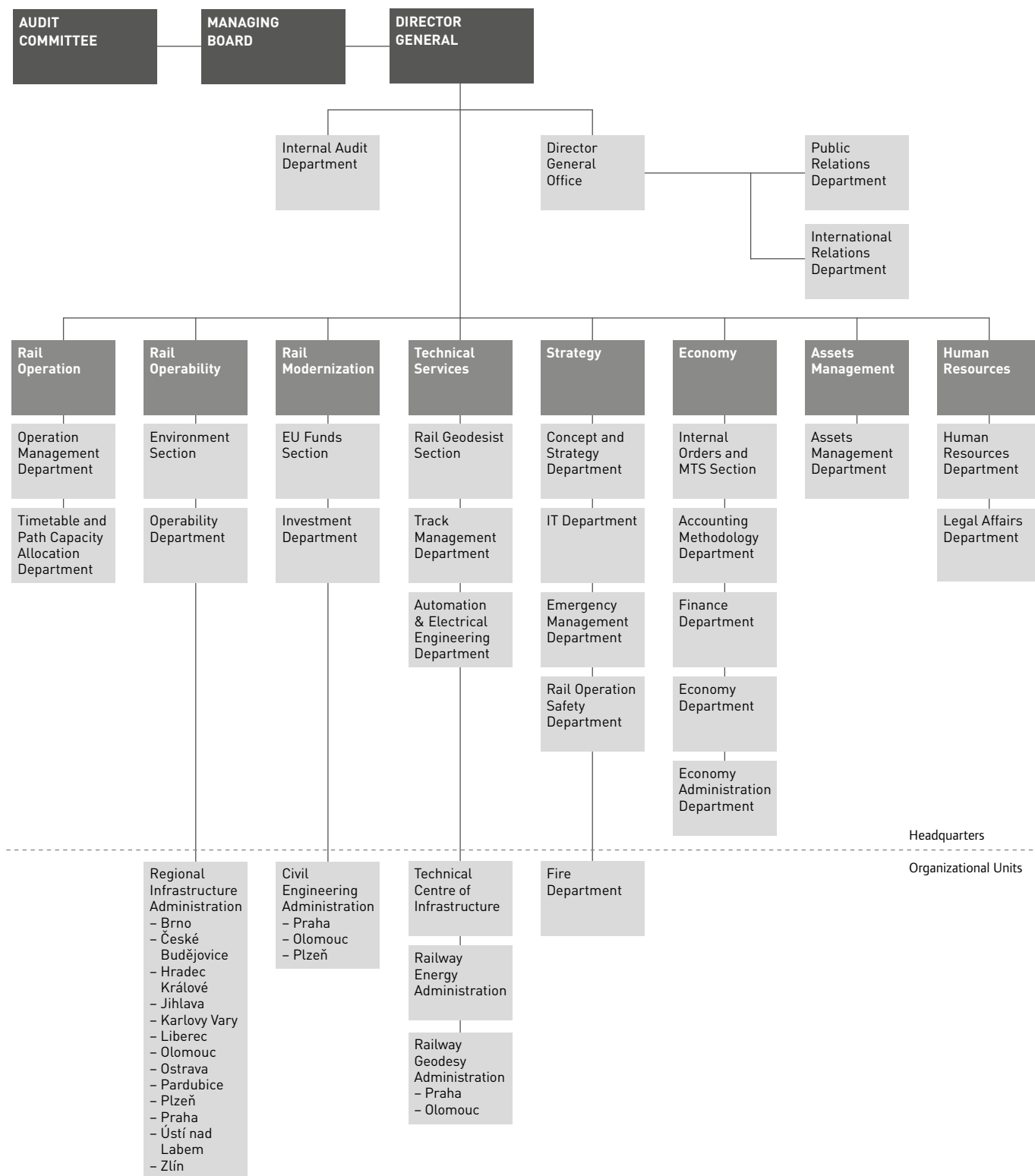
The members of the Managing Board as of 31 December 2010 were as follows:

Name	Position	Date
Adolf Jílek	Chairman	Since 2 Dec 2008
Ivan Adamec	Member	Since 8 March 2007
Roman Jurečko	Member	Since 1 Dec 2008
Lukáš Hampl	Member	Since 11 Nov 2010
Jakub Hodinář	Member	Since 11 Nov 2010
Libor Joukl	Member	Since 11 Nov 2010
Radim Vysloužil	Member	Since 11 Nov 2010

The members of the Audit Committee as of 31 December 2010 were as follows:

Name	Date
Hana Březinová	Since 1 Jan 2010
Lukáš Hampl	Since 14 Dec 2010
Radim Vysloužil	Since 14 Dec 2010

## SŽDC Organizational Structure as at 31 December 2010



## 2. Accounting Policies and General Accounting Principles

The Company's accounting books and records are maintained and the financial statements are prepared in accordance with Accounting Act 563/1991 Coll., as amended; Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis with certain exceptions as described in Note 3.1., the accruals principle, the prudence concept and the going concern assumption.

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

## 3. Summary of Significant Accounting Policies

### 3.1. Tangible and Intangible Fixed Assets

SŽDC administers the State's assets pursuant to the Transformation Act.

Fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand for individual movable assets and sets of movable assets (tangible fixed assets) and an acquisition cost greater than CZK 60 thousand for intangible fixed assets on an individual basis.

Purchased intangible fixed assets are stated at cost.

Land acquired prior to 1992 is stated at a value set out in the regulation issued by the Ministry of Finance's ruling at the date of the acquisition of assets. Land acquired after 1992 is valued at acquisition cost.

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

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

Individual movable assets and intangible assets with an acquisition cost of less than CZK 40 thousand and CZK 60 thousand, respectively, are expensed in the period of acquisition and are maintained in the underlying operational records, the only exception being vehicles marked with a registration sign and, based on individual assessment, significant assets for which the Company is not the first user and that have a significant original acquisition cost (eg, assets acquired by the purchase of a business part).

The cost of fixed asset improvements exceeding CZK 40 thousand for the period increases the acquisition cost of the related fixed asset.

Replacement costs are used in valuing assets identified based on inventory counts, which were previously not recorded in the accounting records, received gifts and transfers for no consideration in the Czech Republic.

The acquisition cost of assets comprising the railway infrastructure acquired subsequent to 1 January 2002 from grants is reduced to reflect the amount of the grant. These assets are recorded off balance sheet in accordance with Czech legislation.

The railway infrastructure, which was not depreciated for accounting purposes in 2003 and 2004 in accordance with Section 26 of the Transformation Act, forms a predominant proportion of SŽDC's tangible fixed assets. The amount of unrecognised depreciation would amount to approximately CZK 7.6 billion for both years. Since 1 January 2005, SŽDC has begun to depreciate its tangible fixed assets related to the railway infrastructure in accordance with the amended version of the Transformation Act.

If SŽDC requires the establishment of rights on a third party's assets that correspond to an easement, these are recorded as intangible fixed assets, regardless of the amount of the acquisition cost.

At the balance sheet date, SŽDC recognised provisions against fixed assets based on an assessment of the fair values of individual components or groups of assets as part of count procedures.

Assets acquired through the purchase of a business part as of 1 July 2008 were valued by a court-appointed expert and included in the asset registry of the Company at the net book values of the selling organisation as of the acquisition date. The difference between the aggregate carrying value of assets and the purchase price represents the valuation difference on acquired assets which is depreciated to expenses on a straight line basis over 180 months in accordance with Regulation No. 500/2002 Coll.

### **3.2. Inventory**

Inventory predominantly includes operating inventory of the railway superstructure – the new superstructure stored in centres of superstructure material and the superstructure acquired from investment activities or maintenance. Other inventory includes electrical material, safety installations, concrete sleepers and prefabricated components, personal protective work aids and other operating material.

Low value tangible assets including computers are maintained in the underlying operating records at cost in which they were released for consumption.

Purchased inventory is carried at cost.

The acquired material is carried at replacement cost.

### **3.3. Receivables**

Upon origination, receivables are stated at their nominal value. Receivables acquired through assignment are carried at cost.

Receivables due within one year from the balance sheet date are reported as short-term balances. Other receivables are recorded as long-term.

At the balance sheet date, the Company recorded tax-deductible provisions in accordance with Provisioning Act No. 593/1991 Coll. Non-tax deductible provisions were recognised against receivables past their due dates:

- Full provisions against receivables assumed from ČD, s.o.;
- Full provisions against other receivables that matured on 30 June 2010, except for part of receivables arising from the compensation of damage from ČD Cargo, a.s. (refer to Note 4.10.); and
- Full provisions against receivables arising from arrears in payments of traction energy with maturities after 1 July 2010.

### **3.4. Payables**

Upon origination, payables are stated at their nominal value.

Payables due within one year from the balance sheet date are reported as short-term. Other payables are recorded as long-term.



### 3.5. Loans and Long-Term Payables

Loans and long-term payables are stated at their nominal value.

The portion of long-term loans and payables maturing within one year from the balance sheet date is included in short-term loans and payables, with the exception disclosed in Note 4.13.2.

Costs arising from issued loans and payables attributable to the acquisition and construction of fixed assets incurred until the assets are brought into use are added to the cost of those assets.

### 3.6. Equity

The share capital balance held as of 1 January 2003 was equal to the net book value of assets and liabilities assumed as of the date on which SŽDC was established, as discussed in Note 7.1.

As of 1 July 2004, the assets specified in the Appendix to the Transformation Act transferred from the Ministry of Transport to SŽDC, were charged against the share capital account. In addition, the value of the business part purchased from ČD, a.s. as of 1 July 2008 was charged against the share capital account.

Changes in the share capital are recorded in respect of the transfer of plots of land to the Land Fund of the Czech Republic, bringing records into line with the details held at the Real Estate Cadastre (refer to Note 4.9.), free-of-charge transfers of assets, privatisation (refer to Note 3.18), corrections of accounting errors in the register of land newly established by the plot map at the beginning and end of railway stations as part of the transformation of ČD based on the Transformation Act, or additional refinements made to the scope and value of assets and liabilities taken over by SŽDC as of 1 January 2003.

SŽDC records the statutory reserve fund when it generates profit.

SŽDC records the cultural and social needs fund in accordance with Regulation No. 310/1995 Coll., as amended. In 2010, the fund was used according to the approved principles.

### 3.7. Reserves

The Company recognises reserves for legal disputes, compensation for job-related injuries and occupational diseases, extra payments to pensions of ČD's former employees and damages.

The reserve for legal disputes is equal to the professional legal estimate of losses arising from legal disputes, based on a detailed analysis of the status of individual disputes.

The reserve for payments made as compensation for job-related accidents and diseases and for extra payments to pensions of ČD's former employees is established pursuant to a statistical analysis of available historical information as equal to the present value of estimated future payments arising from claims that originate before the balance sheet date and was reassessed at the balance sheet date.

The reserve for costs arising from paid damages is recognised based on the legal opinion on recognised damages.

### 3.8. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the fixed Czech National Bank's exchange rate ruling as of the first day of the month. In the event of a purchase or sale of a foreign currency for the Czech currency, the foreign exchange rate of the bank that made the transaction is used.

At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rate of the Czech National Bank ruling as of that date.

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

SŽDC does not enter into any financial instruments to hedge against foreign currency risks.

### **3.9. Income Taxation**

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. SŽDC's liability for current tax is calculated using the tax rate that has been enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method. Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply in the period when the tax liability is settled or the asset realised. The balance sheet liability method focuses on temporary differences, which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet.

### **3.10. Financial Derivatives**

The Company designates derivative financial instruments as either trading or hedging. The Company's criteria for a derivative instrument to be accounted for as a hedge are as follows:

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

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

Derivative financial instruments are carried at fair value at the balance sheet date. In determining the fair value, the Company has referred to a reasonable estimate of the bank – participant of the financial market.

The fair value of financial derivatives is determined as a present value of expected cash flows arising from these transactions. The present value is established on the basis of common market-recognised models. Parameters identified on an active market such as foreign exchange rates, yield curves, volatility of relevant financial instruments etc are subsequently included in these pricing models. All financial derivatives having positive fair values are reported as assets, derivatives with negative fair values are reported as liabilities.

Fair value changes in respect of trading derivatives are recognised as an expense or income from derivative transactions as appropriate.

The Company uses derivative financial instruments as hedging instruments in accordance with the risk management strategy. However, these instruments do not meet the criteria for hedge accounting under Czech Accounting Standards as of the balance sheet date and hence these derivatives are recognised as derivatives held for trading.

### **3.11. Grants**

SŽDC receives grants in accordance with regulations prevailing in the Czech Republic.

Operational (non-investment) grants are principally comprised of the grants received from the State Fund of Transport Infrastructure and the Czech State Budget. These grants are specifically provided to offset the costs involved in securing the operability of the railway infrastructure. Operational grants are recorded through other operating income.

Investment grants are comprised of grants received to partially offset the costs involved in reconstructing and modernising infrastructure. These grants include funding relating to individual infrastructure modernisation projects approved by the Government and grants relating to the development phase of specific projects. The grants are provided by the State Fund of Transport Infrastructure, EU funds, and the State Budget. Investment grants are recorded as a reduction of the acquisition cost of the related fixed assets at the use of the grant.

A portion of the investment grants received from the State Fund of Transport Infrastructure represents 'pre-financing' where it is assumed that the grant will be subsequently settled by a grant from EU funds. Subsequently, the collected funding is paid back to the State Fund of Transport Infrastructure. For this reason, the portion of grants received from the State Fund of Transport Infrastructure as pre-financing is reported as part of payables to the State. The amount representing the anticipated amount of the grant from EU funds decreases the cost of assets and increases an estimated receivable balance.

### **3.12. Revenue Recognition**

Revenues are recognised on an accruals basis, except where accruals cannot be estimated with a reasonable degree of certainty or where accruals accounting is not required by Czech accounting regulations.

SŽDC's revenues predominantly include the proceeds arising from the use of the railway infrastructure. Other significant revenue arises from electricity distribution and trading which the Company has been engaged in since 1 January 2008 based on the licence granted by the Energy Office.

### **3.13. Use of Estimates**

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company believes that the estimates and assumptions used will not significantly differ from the actual results and outcomes in the following reporting periods.

### **3.14. Extraordinary Expenses and Income**

During the flooding which was assessed as a natural disaster, part of the Hostašovice – Nový Jičín track was destroyed and was subsequently cancelled by the resolution of the Railway Authority. As a result of the removal of the track from use SŽDC incurred an extraordinary expense equal to the net book value of the cancelled track in 2010.

### **3.15. Changes in Accounting Policies**

No changes were made in accounting policies in the year ended 31 December 2010.

### **3.16. Cash Flow Statement**

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed upon in advance. Cash and cash equivalents include cash on hand and cash at bank.

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

The cash flow statement does not include the costs of assets acquired from subsidies and retained off balance sheet (ie receipt of cash from these subsidies is also not included).

### **3.17. Remission of Debts**

As of the date of its establishment, SŽDC assumed long-term payables arising from guaranteed loan contracts for the financing of corridors and other programmes which are guaranteed by the State in terms of the Transformation Act. The debt service for all loan contracts is secured by the Ministry of Finance. All payments of principal and interest amounts made by the Ministry of Finance are recorded as an increase in long-term payables to the State budget in SŽDC's accounting books.

SŽDC provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set out in accordance with Pricing Act 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing the railway infrastructure. As a result, SŽDC does not generate available sources of funding which it could use to settle its payables to the State budget. Reflecting these facts, on 30 November 2005 the Government adopted Resolution No. 1553 (the "Government Resolution") whereby it set out the approach to forgiving SŽDC's payables until they are fully settled. The Government Resolution states that "subject to compliance with the outlined approach to dealing with SŽDC's payables, this organisation is considered to be clear of debts".

The discharge of the debt itself occurs (and is recognised in the books) on the basis of the "Contract for the Forgiving of Payables" in terms of Government Resolution No. 1553 dated 30 November 2005.

The amount to be forgiven in the following years is submitted to the Czech Government by 30 September of each calendar year.

The amount of the payables forgiven in the relevant year is recorded as other operating income for the current period.

### **3.18. Privatisation**

Under the Transformation Act, SŽDC took over assets from the Ministry of Transport as of 1 July 2004 which are earmarked for the settlement of liabilities assumed from ČD, s.o.

The assets that are the subject of privatisation projects are carried at historical cost net of accumulated depreciation ('net book value'). Following the approval of the privatisation projects, the assets will be transferred to the Czech National Property Fund, since 1 January 2006 to the Ministry of Finance, at the net book value prevailing at the disposal date. In accordance with Czech Accounting Standard No. 22, the disposal of assets is recognised as a reduction of fixed assets with a charge against SŽDC's equity.

In 2010, the Ministry of Finance carried out the privatisation of SŽDC's assets in the form of third party sales. Finances acquired as a result of the privatisation will be transferred to SŽDC in 2011 based on Amendment No. 2 to the Contract for the Transfer of Finances concluded on 26 January 2011. When received, the funding will be reported as other operating income.

### **3.19. Sale of Assets**

The sale of assets comprising the railway infrastructure is subject to the approval by the Czech Government in accordance with Section 20 (4) of the Transformation Act. The sale of assets listed in the Appendix to the Transformation Act is subject to the approval by the Managing Board and subsequently by the Czech Ministry of Transportation.



## 4. Additional Information on the Balance Sheet and Profit and Loss Account

### 4.1. Intangible Fixed Assets

(CZK '000)

Acquisition cost	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Balance at 31 Dec 2010
Software	114,118	70,010	2,908	181,220	49,727	2,002	228,945
Valuable rights	0	0	0	0	0	0	0
Other	2,548	0	0	2,548	106	0	2,654
Intangible assets under construction	0	497	497	0	0	0	0
Prepayments	0	0	0	0	9	0	9
<b>Total</b>	<b>116,666</b>	<b>70,507</b>	<b>3,405</b>	<b>183,768</b>	<b>49,842</b>	<b>2,002</b>	<b>231,608</b>

(CZK '000)

Accumulated amortisation	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Balance at 31 Dec 2010
Software	46,294	35,368	2,909	78,753	59,826	2,002	136,577
Valuable rights	0	0	0	0	0	0	0
Other	187	430	0	617	436	0	1,053
<b>Total</b>	<b>46,481</b>	<b>35,798</b>	<b>2,909</b>	<b>79,370</b>	<b>60,262</b>	<b>2,002</b>	<b>137,630</b>

(CZK '000)

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Software	67,824	102,467	92,368
Valuable rights	0	0	0
Other	2,361	1,931	1,601
Intangible assets under construction	0	0	0
Prepayments	0	0	9
<b>Total</b>	<b>70,185</b>	<b>104,398</b>	<b>93,978</b>

The increase in intangible fixed assets is predominantly due to the acquisition of other SAP software modules.

## 4.1. Tangible Fixed Assets

### 4.1.1. Analysis of Movements of Assets

(CZK '000)

Acquisition cost	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Balance at 31 Dec 2010
Land	6,330,470	132,550	32,882	6,430,138	138,192	39,265	6,529,065
Buildings	134,651,757	759,255	1,311,359	134,099,653	1,441,191	472,728	135,068,116
Individual movable assets	19,817,593	549,546	640,856	19,726,283	878,563	231,969	20,372,877
- Machinery and equipment	19,256,271	442,030	634,318	19,063,983	826,321	226,104	19,664,200
- Vehicles	551,831	107,516	6,279	653,068	52,242	5,678	699,632
- Other	9,491	0	259	9,232	0	187	9,045
Tangible assets under construction	4,849,227	25,727,186	23,577,602	6,998,811	11,436,550	14,100,547	4,334,814
Prepayments	8,846	696,374	644,407	60,813	77,890	127,735	10,968
Valuation difference	8,192,259	0	0	8,192,259	0	2,675	8,189,584
<b>Total</b>	<b>173,850,152</b>	<b>27,864,911</b>	<b>26,207,106</b>	<b>175,507,957</b>	<b>13,972,386</b>	<b>14,974,919</b>	<b>174,505,424</b>

(CZK '000)

Accumulated depreciation	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009	Additions	Disposals	Balance at 31 Dec 2010
Buildings	70,273,237	3,067,295	969,454	72,371,078	2,917,777	317,559	74,971,296
Individual movable assets	10,702,137	1,121,135	485,962	11,337,310	1,092,063	179,711	12,249,662
- Machinery and equipment	10,576,917	1,038,674	481,571	11,134,020	1,008,672	175,156	11,967,536
- Vehicles	120,646	80,581	4,214	197,013	82,644	4,380	275,277
- Other	4,574	1,880	177	6,277	747	175	6,849
Valuation difference	227,563	546,150	0	773,713	545,973	253	1,319,433
<b>Total</b>	<b>81,202,937</b>	<b>4,734,580</b>	<b>1,455,416</b>	<b>84,482,101</b>	<b>4,555,813</b>	<b>497,523</b>	<b>88,540,391</b>

(CZK '000)

Provisions	Balance at 31 Dec 2008	Movement	Balance at 31 Dec 2009	Movement	Balance at 31 Dec 2010
Land	36,611	5,716	42,327	-1,353	40,974
Buildings	155,611	-18,509	137,102	11,903	149,005
Individual movable assets	2,503	1,238	3,741	5,544	9,285
- Machinery and equipment	2,503	825	3,328	5,591	8,919
- Vehicles	0	413	413	-47	366
Tangible fixed assets under construction	180,794	0	180,794	-66,178	114,616
<b>Total</b>	<b>375,519</b>	<b>-11,555</b>	<b>363,964</b>	<b>-50,084</b>	<b>313,880</b>

(CZK '000)

Net book value	Balance at 31 Dec 2008	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	6,293,859	6,387,811	6,488,091
Buildings	64,222,909	61,591,473	59,947,815
Individual movable assets	9,112,953	8,385,232	8,113,930
- Machinery and equipment	8,676,851	7,926,635	7,687,745
- Vehicles	431,185	455,642	423,989
- Other	4,917	2,955	2,196
Tangible assets under construction	4,668,433	6,818,017	4,220,198
Prepayments	8,846	60,813	10,968
Valuation difference	7,964,696	7,418,546	6,870,151
<b>Total</b>	<b>92,271,696</b>	<b>90,661,892</b>	<b>85,651,153</b>

Additions to assets under construction predominantly include costs of acquiring assets. Disposals largely include the recognised decrease in the acquisition cost by the amount of the subsidy.

In the year ended 31 December 2010, the acquisition cost of fixed assets decreased year-on-year by CZK 1,002,533 thousand. The decrease in tangible fixed assets as compared to 2009 is predominantly due to the decrease in tangible fixed assets under construction.

The balance of the tangible assets under construction account primarily includes expenses relating to the railway corridors construction as described in Note 6.2. and construction work relating to modernisation and renovation of the railway infrastructure.

#### 4.2.2. Investment Grants

Set out below is an analysis of the total balance of investment grants for the years ended 31 December 2010 and 2009:

(CZK '000)

	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
State Fund of Transport Infrastructure for modernisation, state share, "Doprava" operational fund, EIB	13,967,070	18,236,148
EU funds	794,429	672,030
Contributions from municipalities, regions and other entities	13,797	52,234
<b>Total investment grants</b>	<b>14,775,296</b>	<b>18,960,412</b>

Grants from the State Fund of Transport Infrastructure for construction and modernisation include funds from the "Doprava" operational fund which amounted to CZK 8,836,055 thousand and CZK 7,856,757 thousand in the years ended 31 December 2010 and 2009, respectively.

Grants received from the State Fund of Transport Infrastructure in the form of pre-financing amounted to CZK 63,230 thousand and CZK 593,359 thousand in the years ended 31 December 2010 and 2009, respectively.

#### 4.2.3. Assets not Reported in the Balance Sheet

The aggregate amount of low value tangible assets not reported in the balance sheet is CZK 683,153 thousand and CZK 654,238 thousand as of 31 December 2010 and 31 December 2009, respectively. These balances are composed of assets with a cost not exceeding CZK 40 thousand which are retained in the operating records at historical cost. These balances were recognised in expenses when acquired in accordance with the effective legislation.

The amount of fixed assets financed from grants and other sources recorded off balance sheet is CZK 130,277,086 thousand and CZK 116,370,745 thousand as of 31 December 2010 and 31 December 2009, respectively.

#### 4.2.4. Pledged Assets

SŽDC held no pledged assets as of 31 December 2010.

#### 4.2.5. Assets Held Under Finance Leases

SŽDC holds no assets under finance leases in the year ended 31 December 2010.

### 4.3. Inventory

(CZK '000)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Material in stock	282,973	268,164
Material in transit	160	104
Work in progress	815	849
Goods in stock	13	12
Prepayments for inventory	0	4
Provision against inventory	-73	-50
<b>Total inventory</b>	<b>283,888</b>	<b>269,083</b>

The increase in the material in stock and in transit was due to missing inventory being added to the balances to secure the operability of the railway infrastructure.

### 4.4. Short-Term Receivables

#### 5.3.1. Trade Receivables

Set out below is the aging analysis of trade receivables:

(CZK '000)

31 Dec 2010	Before due date	Past due date (in days)					Total past due	Total
		0-90 days	91-180 days	181-365 days	1-2 years	2 years and greater		
Gross	1,779,968	85,461	3,877	86,135	246,231	265,738	687,442	<b>2,467,410</b>
Provision	0	0	0	-81,531	-221,183	-219,501	-522,215	<b>-522,215</b>
Net	1,779,968	85,461	3,877	4,604	25,048	46,237	165,227	<b>1,945,195</b>

(CZK '000)

31 Dec 2009	Before due date	Past due date (in days)					Total past due	Total
		0-90 days	91-180 days	181-365 days	1-2 years	2 years and greater		
Gross	2,556,634	106,752	97,208	96,875	67,707	208,567	577,109	<b>3,133,743</b>
Provision	-79,987	-66,224	-62,731	-81,759	-14,532	-207,357	-432,603	<b>-512,590</b>
Net	2,476,647	40,528	34,477	15,116	53,175	1,210	144,506	<b>2,621,153</b>



As of 31 December 2010, receivables decreased in relation to the discontinued sale of electricity to ČD, a.s. and ČD Cargo, a.s. Receivables before their due dates and past their due dates include receivables arising from the use of the railway infrastructure by ČD, a.s. and ČD Cargo, a.s.

Provisions include an amount of CZK 297,203 thousand recognised against receivables from ČD Cargo, a.s. arising from unpaid invoices for the supply of traction electricity. Receivables were not settled by ČD Cargo, a.s. in full as ČD Cargo, a.s. did not agree with the billed price. These receivables are currently subject to arbitration proceedings.

Upon transformation in 2003, SŽDC acquired receivables from the former Yugoslav Railways. In the same year, the receivables were assigned to a third party. However, the assignee breached its obligations and made no payments, therefore SŽDC withdrew from the contract in 2006 and again became the creditor in respect of these receivables. This receivable from the assignee amounts to CZK 112,981 thousand as of 31 December 2010 and is fully provided for.

#### 4.4.2. Tax Receivables

As of 31 December 2010 and 2009, tax receivables consist of a VAT receivable of CZK 644,966 thousand and CZK 1,537,236 thousand, respectively.

#### 4.4.3. Other Receivables

The structure of other receivables:  
(CZK '000)

Type of receivable	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Receivables assumed from ČD, s.o.	13,334	14,594
Of which: -Damage on the assets of ČD, s.o.	10,330	11,142
- Other	3,004	3,452
Receivables arising from damages	37,764	44,963
Receivables from the sale of the business part	22,390	22,390
Reserve allocation to the cultural and social needs fund	62,883	69,368
Other	829	544
<b>Total other receivables</b>	<b>137,200</b>	<b>151,859</b>
Provisions	-71,175	-65,156
<b>Total other receivables, net</b>	<b>66,025</b>	<b>86,703</b>

The decrease in receivables arising from damages is due to the change of the accounting policy as of 1 January 2010. On the basis of this change, the amount of the sought damages is reported in estimated receivables before it is acknowledged by the party at fault. After the damages have been acknowledged, the relevant amount is reclassified to other receivables. This item includes the rebilling of the damage arising from the fall of the bridge in the Studénka railway station in the amount of CZK 11,124 thousand submitted for legal recovery.

The amount of the allocation to the cultural and social needs fund corresponds to the number of employees in 2010.

#### 4.5. Estimated Receivables

(CZK '000)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Anticipated grant from EU funds (refer to Note 3.11)	990,451	1,438,362
Estimated receivable arising from the billing of the use of the railway infrastructure in freight transportation	5,765	0
Claimed compensation for damage arising from the mandate contract with ČD a.s.	977	21,104
Estimated receivable from the rebilling of the expenses for the administration of residential premises the sale of which did not become legally effective	3,162	4,786
Estimated receivable for compensation for the fall of the Studénka bridge	0	11,124
Estimated receivable for the share of the ČD network transition	819	1,042
Unbilled consumption of electricity	5,962	3,201
Fire-fighting services for ČD, a.s.	12,651	0
Fire-fighting services for ČD Cargo, a. s.	7,321	0
Settlement for Railreklam	4,391	0
Estimated receivables from damages claimed	69,229	0
Other items	35,094	26,189
<b>Total estimated receivables</b>	<b>1,135,822</b>	<b>1,505,808</b>
Provision	-977	-21,104
<b>Total net estimated receivables</b>	<b>1,134,845</b>	<b>1,484,704</b>

The claim for the damages arising from the mandate contract with ČD, a.s. was decreased based on the assumption that the debtor (ČD, a.s.) claims the expiration of the statute of limitations.

The estimated receivable from the corporate entity for the fall of the bridge in Studénka is rebilled to other receivables submitted for legal recovery.

The services of the fire-fighting squad for ČD, a.s. and ČD Cargo, a.s. were provided based on the association contract in 2010, they were billed based on the settlement in 2011. The similar situation applies to the settlement for Railreklam.

The increase in estimated receivables for the claim of damages results from the new accounting policy implemented since 1 January 2010 where the amount of the sought compensation prior to the damage being acknowledged by the party at fault is reported in estimated receivables. Following acknowledgement of the compensation, the relevant amount is reclassified to other receivables.

Other items predominantly include estimated receivables from the settlement of additional services relating to the lease.

#### 4.6. Derivative Financial Instruments

(CZK '000)

	31 Dec 2010 Fair value	31 Dec 2009 Fair value
Derivatives held for trading		
Interest rate swaps	-62,258	-73,250
<b>Total</b>	<b>-62,258</b>	<b>-73,250</b>

The Framework Contract for Trading on the Financial Market (hereinafter the "Framework Contract") was concluded between Česká spořitelna, a.s. (ČS, a.s.) and SŽDC on 5 February 2008. This contract relates to the bank loan not guaranteed by the state provided by Česká spořitelna, a.s. for the funding of rationalising activities on the railway infrastructure in the aggregate amount of CZK 1.5 billion. The Framework Contract includes the Interest Rate Swap Hedging Contract which is in effect until 31 December 2013, the hedging of interest rates relates to the gradual drawing of the loan facility up to CZK 1.5 billion, the interest rates are hedged based on the fixed 3M Pribor  $\pm$  variance.

This payable arising from derivative transactions is reported in balance sheet line B.III.11 – Other payables; the impact of changes in the fair value from the revaluation of the derivative is presented in profit and loss account line O – Other financial expenses (refer to Note 4.24).

#### 4.7. Financial Assets

(CZK '000)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Cash on hand and cash in transit	1,482	1,644
Stamps and vouchers	2,328	2,503
Cash at bank	1,383,979	1,203,953
<b>Total financial assets</b>	<b>1,387,789</b>	<b>1,208,100</b>

In assessing the total balance of the Company's funds, it is necessary to consider the balance of the cash pool overdraft account which is reported in short-term loans in the amount of CZK (869,111) thousand (refer to Note 4.13.3.). Reflecting this impact, the total balance of the Company's bank accounts is CZK 514,868 thousand.

#### 4.8. Deferred Expenses

Deferred expenses largely include deferred operating expenses of SŽDC related to the principal activities of the following year (insurance, prepayments, highway stamps, etc.).

#### 4.9. Equity

Information about the substance of individual equity components is presented in Note 3.6.

In accordance with Czech Accounting Standard No. 22., the share capital amount was reduced by the net book value of privatised assets in 2010 and 2009.

Due to the specification of ČD's transformation, land worth CZK 517 thousand and CZK 3,923 thousand in the years ended 31 December 2010 and 2009, respectively, was included and recognised in SŽDC's assets. Concurrently, land worth CZK 105 thousand and CZK 119 thousand in the years ended 31 December 2010 and 2009, respectively, was removed from SŽDC's accounting records.

The increase in other capital funds primarily represents the specification of the value of plots of land as a result of digitising, gifts, and transfers of assets from state organisations without consideration.

#### 4.10. Rezervy

(údaje v tis. Kč)

	Balance at 31 Dec 2009	Charge	Use	Balance at 31 Dec 2010
Reserve for legal disputes	52,522	810,200	8,650	854,072
Reserve for compensation for job-related accidents and occupational diseases	113,921	3,811	17,791	99,941
Reserve for extra pension payments	61,345	3,815	11,135	54,025
Reserve for costs of damages – ČD Cargo, a.s.	95,867	40,072	0	135,939
<b>Total reserves</b>	<b>323,655</b>	<b>857,898</b>	<b>37,576</b>	<b>1,143,977</b>

Information about the substance of individual reserves is presented in Note 3.7.

The reserve for legal disputes has been recognised on the basis of the status of new or pending legal disputes in which SŽDC was named as the defendant and the underlying current court or out-of-court proceedings. The increase relates to the recognition of the reserve for damages claimed by ČEZ Prodej, s.r.o. due to SŽDC's failure to purchase the contracted amount of electricity in 2010 (refer to Note 6.1.).

#### 4.11. Long-Term Payables

##### 4.11.1. Issued Bonds

Pursuant to Czech Government Resolution No. 908 dated 10 September 2003 relating to the receivables and payables of České dráhy, státní organizace as of 31 December 2002 and their collection/settlement, SŽDC issued bonds (ISIN CZ0003501397) in the aggregate amount of CZK 7 billion in 2004. The nominal value of each bond is CZK 10 thousand. The bonds were issued on 3 March 2004 with maturity in 2011 and an annual interest rate of 4.6 percent. These bonds are traded on the auxiliary stock market. The proceeds of the issue will be used to settle a defined portfolio of payables. In March 2010, the sixth payment of interest in the aggregate amount of CZK 322 million was made to the holders of bonds.

The issued bonds were redeemed by the state (the Czech Ministry of Finance) in March 2011. SŽDC's long-term payable to the holders of bonds was thus transferred to the long-term payable to the state. As the decision on this redemption treatment was made already in 2010, the balance of these bonds as of 31 December 2010 continues to be classified as a long-term payable.

##### 4.11.2. Long-Term Trade Payables

(CZK '000)

Creditor	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Retentions	2,220,698	1,233,900
Bid-bonds, security deposits, sureties	3,000	6,000
Cash deposits received from customers	242	0
<b>Total</b>	<b>2,223,940</b>	<b>1,239,900</b>

The increase in retentions is due to investment activities on the railway infrastructure.



#### 4.11.3. Other Long-Term Payables

(CZK '000)

Creditor	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Czech Ministry of Finance – payment under the state guarantee for loan interest, after the remission	273,916	534,026
Czech Ministry of Finance – payment under the state guarantee for loan principal, after the remission	946,698	1,620,681
<b>Total</b>	<b>1,220,614</b>	<b>2,154,707</b>

Payables to the State (the Czech Ministry of Finance) arise from the repayment of loan principal and interest balances which the State has made on behalf of SŽDC under the state guarantee (according to individual contracts and/or the Transformation Act). The balances of these payables do not accrue any interest.

In 2005, the Czech Government adopted Resolution No. 1553 on the remission of these payables based on which the long-term payables were decreased. In 2009 and 2010, the payables of CZK 6,357 million and CZK 3,751 million were remitted.

#### 4.12. Short-Term Payables

##### 4.12.1. Trade Payables

Set out below is the aging analysis of trade payables:

(CZK '000)

Year	Before due date	Past due date (days)					Total past due	Total
		0–90 days	91–180 days	181–365 days	1–2 years	2 years and greater		
2010	3,067,145	20,066	122	1,164	19	73	21,444	3,088,589
2009	5,832,026	218,372	3,809	1,952	115	0	224,248	6,056,274

The decrease in payables before their due dates and past their due dates was predominantly due to the discontinued purchase of traction electricity from ČEZ Prodej, s.r.o.

Payables past their due dates predominantly relate to the investment construction by the suppliers EUROVIA CS, a.s. and Skanska a.s. and service on the railway infrastructure to ČD, a.s.

##### 4.12.2. Social Security Payables

As of 31 December 2010, the Company carried only social security payables before their due dates.

#### 4.12.3. Tax Payables and Subsidies

(CZK '000)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Undrawn investment subsidies from the SFTI	14,825	154,775
SFTI – FS recoverable investment subsidy	932,592	1,342,170
SFTI – TEN T recoverable subsidy	62,675	92,314
TEN T investment subsidy	594,793	387,860
Investment contributions of municipalities, regions and other entities	12,765	16,499
Income tax withheld on behalf of employees	33,387	32,874
Other taxes	53	806
Other grants to sales	15	43
<b>Total tax payables and subsidies</b>	<b>1,651,105</b>	<b>2,027,341</b>

The bulk of the balance of the investment subsidy from the SFTI includes the payable of the pre-financing of constructions in terms of a recoverable subsidy (refer to Note 3.11.) for constructions financed from EU funds, in the amounts of CZK 995,267 thousand and CZK 1,434,484 thousand as of 31 December 2010 and 2009, respectively.

The Company maintains no tax arrears with respect to the relevant taxation authorities.

#### 4.12.4. Short-Term Received Prepayment

Short-term received prepayments amount to CZK 103,110 thousand and CZK 90,771 thousand as of 31 December 2010 and 2009, respectively. Prepayments are received predominantly for the billing of ancillary services relating to the lease of residential and non-residential premises and provision of easements when the Company is the obligated party and prepayments for the purchase of electricity.

#### 4.12.5. Estimated Payables

(CZK '000)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Unbilled non-investment supplies	179,860	495,618
Unbilled investment supplies	63,486	145
Estimated payable for interest expenses in respect of corridors	34,317	42,914
Estimated payable for the payment to the state budget for non-compliance with the obligatory number of disabled people	0	15,966
Other	4,605	5,346
<b>Total estimated payables</b>	<b>282,268</b>	<b>559,989</b>

The decrease in unbilled non-investment supplies is due to the fact that the services of railway infrastructure were not recognised in estimated payables as of 31 December 2010. As of 31 December 2009, they amounted to CZK 351 million. Unbilled non-investment supplies include estimated additional payables that relate to rental and costs of internal consumption of electricity.

The balance of unbilled investment supplies as of 31 December 2010 increased year-on-year due to the unbilled investment supplies on the work of the third railway corridor.

As of 31 December 2010, the Company did not recognise an estimated payable for the payment for non-compliance with the obligatory number of employed disabled people, due to the change in the interpretation of the Czech Ministry of Labour and Social Affairs.

#### 4.13. Bank Loans

##### 4.13.1. Long-Term Bank Loans

SŽDC's debt portfolio principally includes payables arising from loan agreements previously held by České dráhy, státní organizace. The loans carry a state guarantee and were received principally in connection with the financing of the construction and renovation of corridors and other development programmes pursuant to Government Resolutions Nos. 798/1999 and 1201/2000.

(CZK '000)

Bank	Currency	Balance at 31 Dec 2009	Drawing in 1-12/2010	Repayments in 1-12/2010	Foreign exchange rate differences	Balance at 31 Dec 2010
<b>The 1<sup>st</sup> Corridor</b>						
KfW Frankfurt	EUR	202,970	0	32,790	10,018	160,162
EIB Luxembourg	EUR	1,094,678	0	211,817	53,611	829,250
Japan. EXIM Bank	JPY	799,039	0	167,593	-110,148	741,594
EIB Luxembourg	EUR	1,001,523	0	125,953	53,664	821,906
ČS, a.s.	CZK	448,000	0	223,600	0	224,400
KB, a.s.	CZK	869,000	0	174,000	0	695,000
KfW Frankfurt	EUR	730,434	0	78,668	36,961	614,805
<b>The 2<sup>nd</sup> Corridor</b>						
EIB Luxembourg	EUR	2,470,067	0	337,580	127,687	2,004,800
EIB Luxembourg	EUR	3,327,029	0	293,663	169,366	2,864,000
KfW Frankfurt	EUR	2,029,701	0	262,318	101,695	1,665,688
<b>Subtotal</b>		<b>12,972,441</b>	<b>0</b>	<b>1,907,982</b>	<b>442,854</b>	<b>10,621,605</b>
<b>Rationalisation</b>						
ČS, a.s.	CZK	1,274,506	75,489	150,000	0	1,199,995
<b>Subtotal</b>		<b>1,274,506</b>	<b>75,489</b>	<b>150,000</b>	<b>0</b>	<b>1,199,995</b>
<b>Total</b>		<b>14,246,947</b>	<b>75,489</b>	<b>2,057,982</b>	<b>442,854</b>	<b>11,821,600</b>

Interest rates attached to the loans presented above are fixed within a range of 3-8 percent p.a. or floating derived from PRIBOR, LIBOR and EURIBOR with a mark-up in the range of 0.15-0.287 percent p.a.

##### 4.13.2. Summary of Loan Maturities

(CZK '000)

	Due in 2010	Due in 2011	Due in the following years
Long-term loans	2,057,982	2,053,248	9,768,352
<b>Total</b>	<b>2,057,982</b>	<b>2,053,248</b>	<b>9,768,352</b>

The repayments of long-term loans according to guarantees provided by the State under special legislation or guarantees resulting from the Transformation Act are made by the State (the Czech Ministry of Finance). When the repayment is made by the State, the relevant balance will be reallocated to "Other long-term payables". The repayments of principals amounted to CZK 2,057,982 thousand in the year ended 31 December 2010, of which CZK 150,000 thousand was paid from own funds.

The debt service arising from the non-guaranteed loan provided by Česká spořitelna, a.s., was paid by the Company in full in the amount of CZK 150,000 thousand.

Given that SŽDC's loans are repaid by the State and are subsequently carried as long-term payables, the portion of loans maturing within one year is not classified as short-term in the financial statements.

#### 4.13.3. Short-Term Financial Loans

(CZK '000)

	31 Dec 2010	31 Dec 2009
Overdraft	869,111	678,368
<b>Short-term financial loans</b>	<b>869,111</b>	<b>678,368</b>

At the end of 2010, the Company drew the allowed overdraft limit from the cash pool account to settle payables arising from operability and operations of the railway infrastructure.

#### 4.14. Deferred Taxation

SŽDC has determined deferred taxation as follows:

(CZK '000)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Tangible and intangible fixed assets	-3,741,945	-3,550,863
Provisions against assets	59,637	69,153
Trade receivables	79,087	17,525
Reserves	217,356	61,495
Tax losses carried forward	313,769	0
<b>Total deferred tax (+asset/-liability)</b>	<b>-3,072,096</b>	<b>-3,402,690</b>

According to the principle of prudence, the calculation of the deferred tax reflected only part of the tax losses from prior years in an amount whose utilisation is likely. The tax was calculated using the known tax rate.

#### 4.15. Accrued Expenses and Deferred Income

(CZK '000)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Deferred income - payments from Severočeské doly for damages	0	1,012
Accrued expenses for interest on the issue of SŽDC's bonds	267,304	267,304
Agreement on the settlement of rights and obligations with ČD-T, a.s.	0	25,641
Settlement agreement	80,000	0
Rental collected upfront	7,395	10,163
Accrued expenses for the payment for non-compliance with the obligatory number of employed disabled people	9,853	0
Other	5,658	747
<b>Total accrued expenses and deferred income</b>	<b>370,210</b>	<b>304,867</b>

The subject matter of the settlement agreement is the financial settlement resulting from the supplies of defective material which will be gradually replaced by no later than 31 December 2018.

#### 4.16. Income from the Sale of the Company's Products and Services

(CZK '000)

Item	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Income from the use of the railway infrastructure by ČD, a.s. – freight transport	80,800	57,102
Income from the use of the railway infrastructure by ČD, a.s. – passenger transport	1,317,213	1,367,418
Income from the use of the railway infrastructure by ČD Cargo, a.s. – freight transport	2,539,310	2,542,408
Income from the use of the railway infrastructure by external carriers - freight transport	379,758	318,433
Income from the use of the railway infrastructure by external carriers - passenger transport	4,872	3,883
Income from the operation of the railway infrastructure	70,934	67,312
Rental income	192,764	174,620
Income from other external services	643,441	756,564
Income from the sales of electricity	1,481,731	3,401,567
Income from foreign carriers for provided services (extraordinary shipments, etc.)	1,967	2,472
<b>Total income from the sale of products and services</b>	<b>6,712,790</b>	<b>8,691,779</b>

All the income was generated on the territory of the Czech Republic.

The slight decrease in the income from passenger transport is due to the reduction of operated trains as part of the regional transport obligation provided by České dráhy, a.s. The decrease resulting from the crisis in the prior period was halted. The significant increase in operated services for other carriers is, among others, due to the increase in the number of carriers. Significant operated services are recorded, for example, in respect of PKP Cargo.

The decrease in sales of electricity is due to the fact that before 31 December 2009, the traction electricity including the distribution to the carriers was rebilled by SŽDC while since 1 January 2010, SŽDC has only been securing the distribution of electricity to eight transfer places for ČD, a.s. according to the rules of the electricity market for regulated prices. The electricity is purchased for these transfer places directly by ČD, a.s.

#### 4.17. Purchased Services

(CZK '000)

Item	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Costs of managing the operation of the railway infrastructure by ČD a.s.	5,194,373	5,320,200
Costs of construction repairs and maintenance	2,828,212	2,292,617
Costs of repairing apartments	18,661	7,766
Costs of audit, legal and economic services	10,659	28,930
Of which: - costs of the statutory audit of the financial statements	2,300	2,300
- costs of other assurance services	191	270
- costs of other non-audit services by the statutory auditor	8,168	10,087
Costs of cooperation in allocating the capacity of the railway infrastructure	450	361
Other	2,353,737	3,971,268
Of which: repairs and maintenance	1,089,736	1,888,440
lease, software under CZK 60 thousand, etc.	1,264,001	2,082,828
<b>Total</b>	<b>10,406,092</b>	<b>11,621,142</b>

The decline is attributable to the implementation of savings measures and cost optimisation in 2010.



#### 4.18. Staff Costs

(CZK '000)

2010	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs in 2010	Total staff costs in 2009
Additional social programme	69,994			69,994	41,590
Current costs	3,120,094	1,065,619	227,114	4,412,827	4,582,797
Other	139,013	0	0	139,013	82,196
<b>Total</b>	<b>3,329,101</b>	<b>1,065,619</b>	<b>227,114</b>	<b>4,621,834</b>	<b>4,706,583</b>

Current staff costs represent costs of SŽDC's employees for the year ended 31 December 2010. The "social security and health insurance" column shows payments made by the employer.

Other expenses include compensation for the loss of earnings, contributions for company catering, special contributions to pensions to previous employees of ČD, s.o., contributions to additional pension insurance and contributions to capital insurance.

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

(CZK '000)

Item	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Change in reserves	820,323	22,973
Change in provisions against receivables	-4,484	337,052
Change in provisions against tangible fixed assets	-50,084	-11,555
Change in inventory	23	50
<b>Total change in reserves and provisions relating to operating activities</b>	<b>765,778</b>	<b>348,520</b>

The increase in the balance of reserves relates to the recognition of the reserve for damage compensation claimed by ČEZ Prodej, s.r.o. due to the Company's failure to purchase the contracted amount of electricity in 2010 (refer to Note 6.1.).

#### 4.20. Other Operating Income

(CZK '000)

Item	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Subsidies from the State Fund of Transport Infrastructure ('SFTI') for repairs and maintenance of the railway infrastructure	8,159,000	8,005,000
Subsidies from the SFTI for repairs and maintenance after floods	311,721	712,074
Non-investment subsidies from the state budget	1,776,971	1,460,000
Non-investment subsidies from SFTI – special purpose	974	11,873
Non-investment subsidies - OPD programme	8,288	7,285
Other subsidies	4,626	4,774
Subsidies from the state budget for the additional social programme according to the governmental resolution	69,994	41,590
Remission of debts	3,750,868	6,357,073
Proceeds of recovered material	167,468	220,737
Proceeds from privatisation	0	4,287
Received contractual penalties and default interest	12,767	25,826
Sale of rights for the operation of the transmission network	0	27,776
Compensation of the mining damage from Severočeské doly	0	4,322
Claims for compensation for deficits and damage	91,478	78,820
Sundry operating income	103,294	67,735
<b>Total other operating income</b>	<b>14,457,449</b>	<b>17,029,172</b>

#### 4.21. Other Operating Expenses

(CZK '000)

	Item	Year ended 31 Dec 2010	Year ended 31 Dec 2009
Non-investment and investment default interest		2,192	95
Fines and penalties		1,088	1,203
Write-offs of receivables		8,888	7,509
Write-off of thwarted investments		4,836	40
Costs of court proceedings		741	385
Rents paid		17,806	19,862
Costs arising from the non-employing of disabled people		9,853	8,781
Insurance of assets and liability insurance		23,892	26,765
Membership contributions		6,261	4,553
Liability damage on third party assets		11,901	0
Sundry operating expenses		21,047	12,866
<b>Total other operating expenses</b>		<b>108,505</b>	<b>82,059</b>

The increase in the write-off of thwarted investments was made based on the resolution of the inventory count commission through the write-off of the project documentation of those projects that are not expected to be realised.

The increase in the costs of liability damage on third party assets is due to the change in the accounting treatment when these expenses were recognised in the repairs and maintenance account in 2009.

Other operating expenses include contributions for the maintenance of personal protective work aids and settlement of payables arising from legal disputes assumed from ČD, a.s.

#### 4.22. Interest Income

The interest income in the years ended 31 December 2010 and 2009 amounted to CZK 7,985 thousand and CZK 36,996 thousand, respectively. The significant year-on-year decrease in interest income is due to low available balances on bank accounts and low interest rates during 2010.

#### 4.23. Other Financial Income

Other financial income principally includes foreign exchange rate gains arising from the retranslation of foreign currency loans which decreased significantly in 2010 predominantly due to the strengthening of the Czech crown.

#### 4.24. Other Financial Expenses

Other financial expenses predominantly include foreign exchange rate losses from the retranslation of foreign currency loans and the impact of the change in the fair value from revaluation of derivatives (refer to Note 4.6.).

## 5. Employees, Management and Statutory Bodies

### 5.1. Staff cost and number of employees

The following tables summarise the average recalculated number of SŽDC's employees and managers and the related current staff costs for the years ended 31 December 2010 and 2009:

(CZK '000)

2010	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	9,423	3,260,856	1,044,431	225,987	4,531,274
Managers	52	68,245	21,188	1,127	90,560
<b>Total</b>	<b>9,475</b>	<b>3,329,101</b>	<b>1,065,619</b>	<b>227,114</b>	<b>4,621,834</b>

(CZK '000)

2009	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	10,129	3,315,979	1,078,768	231,331	4,626,078
Managers	48	61,929	17,406	1,170	80,505
<b>Total</b>	<b>10,177</b>	<b>3,377,908</b>	<b>1,096,174</b>	<b>232,501</b>	<b>4,706,583</b>

As of 1 January 2010, the Company had 9,764 employees, divided into 21 organisational units by activities and regions and the head office responsible for the strategic and organisational role in the Company. During the reporting period, the Company continued optimising the number of employees which resulted in the decrease in staff costs. As of 31 December 2010, the Company had 8,795 employees, ie a year-on-year decrease of 1,134.

### 5.2. Loans, Borrowings, and Other Benefits Provided

In 2010 and 2009, members of the Company's management did not receive any borrowings, loans or any other bonuses in addition to their basic salaries.

## 6. Contingent Liabilities and Other Off Balance Sheet Commitments

### 6.1. Off Balance Sheet Commitments

#### Environmental Liabilities

Deliverables from the performed across-the-board environmental audit of the assets owned by the state with the right of management for the Company (2008) and other available analyses indicate that the level of proven pollution is lower than originally anticipated (this also relates to the distribution of assets of ČD, s.o. in the past according to Act No. 77/2002 Coll.). As such, it will not be necessary to continue the intensive monitoring of these areas. However, this was only a partial sample of areas with potential legacy contamination. For this reason, it is not possible to calculate the total potential future liabilities arising from damage caused by prior activities (potential legacy environmental burdens including soil and water pollution, etc.).

It is impossible to determine the liabilities related to the prevention of potential future damage (predominantly due to accident leakage of harmful substances in extraordinary events). Concurrently, it will be necessary to commence the gradual removal of the legacy noise burden in sections outside the corridors (estimated at CZK 1.1 billion).

The actually incurred costs for the prevention of environmental damage (including potential environmental damage) are recognised as operating expenses as part of the securing of the operability of the railway infrastructure. With respect to the modernisation of the railway infrastructure, environmental protection is an integral part of the preparatory project documentation and environmental costs are part of the acquisition cost of a new investment construction.

In the year ended 31 December 2010, total non-capital environmental costs were calculated to be approximately CZK 389 million. The capital costs of sound protection in the modernisation of tracks were calculated at CZK 372 million.

### Legal Disputes

In 2008, SŽDC entered into a contract for the supply of traction electricity for 2009-2011 with ČEZ Prodej, s.r.o. pursuant to a tender. Given the changed legislative conditions, SŽDC discontinued supplying traction electricity to carriers on 1 January 2010 and accordingly decreased the purchase from ČEZ Prodej, s.r.o. Even though SŽDC proceeded in accordance with the concluded contract, ČEZ Prodej, s.r.o. has started seeking damages from SŽDC. The issue is currently being dealt with through the courts. Although SŽDC is convinced about its course of action being appropriate, it has recognised a reserve of CZK 800 million for potential costs resulting from this dispute due to existing uncertainties.

### Property Relations

SŽDC's records also include a number of plots of land with unclear ownership titles. These cases are reviewed on an ongoing basis as the data included in the Real Estate Cadastre is digitised. Adjustments, if any, are charged against equity accounts (refer to Note 3.6.).

### 6.2. Projected Commitments Associated with Corridor Construction

With a view to fully linking the Czech railway infrastructure to the European infrastructure, SŽDC oversees the construction of railway transit corridors. The construction of the 1st Railway Corridor was completed in 2004 and the construction of the 2nd Railway Corridor was completed in 2007.

The ultimate aggregate amount of the costs involved in constructing these corridors will be affected by the development of the exchange rate of the Czech crown against other currencies, the progress and timing of construction, availability of funding and other factors. The most recent projection of the final amount of the costs is as follows:

(CZK '000)

Balance at 31 Dec 2010	Construction work undertaken to date	Remaining estimated costs	Total estimated costs
1 <sup>st</sup> Corridor	40,759,568	0	40,759,568
2 <sup>nd</sup> Corridor	39,016,291	0	39,016,291
3 <sup>rd</sup> Corridor	27,833,509	47,797,352	75,630,861
4 <sup>th</sup> Corridor	14,593,689	27,331,695	41,925,384
<b>Total</b>	<b>122,203,057</b>	<b>75,129,047</b>	<b>197,332,104</b>

On 5 June 2002, the Czech Government passed Resolution No. 575 whereby it approved the construction of the 3rd Transit Railway Corridor for the line: state border Mosty u Jablunkova – Dětmárovice – Přerov – Česká Třebová – Praha – Plzeň – Cheb, state border. Pursuant to Czech Government Resolution No. 164 dated 25 February 2004, the Transportation Minister has been tasked with updating the proposals for modernising the 3rd and 4th Transit Railway Corridors, including the models for their financing. SŽDC prepared and presented the update to the Czech Ministry of Transport and it was subsequently approved by Resolution No. 885 on 13 July 2005. The amount of CZK 75.6 billion from the State Fund of Transport Infrastructure, bank loans and EU funds was approved for the implementation. The project is anticipated to be completed in 2016.

The construction of the 4th Transit Railway Corridor for the line: state border Horní Dvořiště – České Budějovice – Praha, was approved by the Czech Government in Resolution No. 1317 dated 10 December 2001. Subsequently, this resolution was updated on 13 July 2005 by Resolution No. 885. The amount of CZK 41.9 billion from the State Fund of Transport Infrastructure, bank loans and EU funds was approved for the implementation. The project is anticipated to be completed in 2016.

## **7. Other Information**

### **7.1. Formation and Incorporation of the Company**

On 1 March 2002, Act 77/2002 Coll. on the Joint Stock Company Czech Railways, the State Organisation Railway Infrastructure Administration and the Changes to the Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll. as amended (hereinafter the "Transformation Act") took effect. On the basis of the Transformation Act, the state organisation Czech Railways discontinued its activities and operations on 31 December 2002 and SŽDC and České dráhy, a.s. were formed as its legal successors effective from 1 January 2003.

SŽDC assumed the assets comprising the railway infrastructure while České dráhy, a.s. assumed the assets used to operate railway transportation and the railway infrastructure. In addition, SŽDC took over the majority of receivables, payables and loans, while České dráhy, a.s. assumed only trade receivables and payables before their due dates and receivables and payables arising from employment arrangements with its employees. Both entities assumed the assets and liabilities at their book values.

The Transformation Act was amended in April 2004 under which, as of 1 July 2004, SŽDC took over assets of the state organisation České dráhy earmarked for the settlement of the payables of the state organisation České dráhy which had passed on to the Czech Ministry of Transport under the original wording of the Transformation Act.

While the apportionment of the assets between the successor companies was made on a best effort basis to ensure the appropriate and legally consistent apportionment of assets, alternative interpretations of certain provisions of the Transformation Act remain. This specifically relates to the assets specified in the Establishment Deed of České dráhy, a.s. The financial statements of SŽDC do not include any adjustments that might be necessary as a result of any such future revisions of the applied interpretations and the resulting impacts on the reported components and amounts of SŽDC's assets and liabilities.

### **7.2. Significant Factors Impacting SŽDC's Activities and Operations**

SŽDC was formed pursuant to, and its activities and operations are governed by, the Transformation Act, Act 266/94 Coll. and other general legal regulations governing the position of state organisations. The above legislation, inter alia, sets out the scope of SŽDC's assets or its role in operating and securing the operability of the railway infrastructure in the public interest.

Under the amendment to the Transformation Act, SŽDC assumed the activities of the railway infrastructure operator on 1 July 2008. For this reason, the contract between SŽDC and ČD, a.s. for the operability of the railway infrastructure was discontinued as of 30 June 2008 and the contract was replaced by individual contracts defining mutual relations between SŽDC and ČD, a.s.

SŽDC provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set in compliance with Pricing Act 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing the railway infrastructure. As such, the financing of SŽDC's activities is dependent upon subsidies from the State and/or other entities.

### **7.3. Transactions with České dráhy, a.s. and ČD Cargo, a.s.**

Expenses and income resulting from the transactions conducted with České dráhy, a.s. were as follows:



(CZK '000)

2010	Expenses	Income
ČD, a.s.		
Costs of managing the operation of the railway infrastructure	5,194,373	0
Income from the use of the railway infrastructure - passenger transport	0	1,317,213
Income from the use of the railway infrastructure - freight transport	0	80,800
Income from the allocated railway infrastructure capacity	0	45,479
Income from the electricity - SŽE	0	1,208,857
<b>Total</b>	<b>5,194,373</b>	<b>2,652,349</b>

(CZK '000)

2009	Expenses	Income
ČD, a.s.		
Costs of managing the operation of the railway infrastructure	5,320,200	0
Income from the use of the railway infrastructure - passenger transport	0	1,367,418
Income from the use of the railway infrastructure - freight transport	0	57,102
Income from the allocated railway infrastructure capacity	0	46,034
Income from the electricity - SŽE	0	1,785,429
<b>Total</b>	<b>5,320,200</b>	<b>3,255,983</b>

As of 31 December 2010, SŽDC recorded amounts due from and to České dráhy, a.s. at the net amount of CZK 433,627 thousand. The amount that is reported in the balance sheet as part of trade receivables is CZK 952,514 thousand for ČD, a.s. The trade payable includes the amount of CZK 522,792 thousand. Other amounts include other receivables and received prepayments.

(CZK '000)

Expenses and income of SŽDC in relation to ČD Cargo, a.s.	2010	2009
Income from the use of the railway infrastructure - freight transportation	2,539,310	2,542,408
Income from the allocated railway infrastructure capacity	16,102	15,136
Income from the electricity - SŽE	46,911	1,367,264
<b>Total</b>	<b>2,602,323</b>	<b>3,924,808</b>

As of 31 December 2010, SŽDC records amounts due from and to ČD Cargo, a.s., the aggregate net book value represents a receivable of SŽDC amounting to CZK 906,060 thousand. The amount that is reported in the balance sheet as part of trade receivables is CZK 909,597 thousand for ČD Cargo, a.s. The trade payable includes the amount of CZK 3,537 thousand. Part of the receivables from ČD Cargo, a.s. is currently subject to arbitration proceedings, refer to Note 4.4.1.

#### 7.4. Economic Benefits Associated with Fixed Assets

The useful lives of, and economic benefits associated with, the bulk of the existing tangible fixed assets forming the railway infrastructure are dependent upon the availability of funding and future decisions regarding their renovation, modernisation and rationalisation. Due to the existing uncertainties in the above areas, the ultimate useful lives of, and economic benefits associated with, the existing tangible fixed assets cannot be presently determined, and, accordingly, no adjustment to the valuation of tangible fixed assets has been made in the financial statements.

#### 7.5. Privatisation

SŽDC records assets held for privatisation.

In the year ended 31 December 2010, the Company completed four privatisation projects including the privatisation of residential buildings in the aggregate amount of CZK 3,954 thousand. The net book value of disposed of privatised assets for residential buildings amounts to CZK 6,897 thousand in 2010.

With respect to assets other than residential buildings, the Company completed one privatisation project in the aggregate amount of CZK 1,312 thousand. The net book value of disposed of other privatised assets amounted to CZK 66 thousand in the year ended 31 December 2010.

The receivable from the Czech Ministry of Finance for unsettled completed privatisation projects of residential buildings for 2010, 2009 and 2008 amounted to CZK 3,954 thousand, CZK 5,503 thousand and CZK 1,446 thousand, respectively.

The receivable from the Czech Ministry of Finance for unsettled completed privatisation projects of other assets amounted to CZK 1,312 thousand and CZK 17,569 thousand and CZK 11,083 thousand in the years ended 31 December 2010, 2009 and 2008, respectively.

All of the above receivables from the Ministry of Finance for 2008 – 2010 amounting to CZK 40,867 thousand are expected to be settled in 2011 based on Amendment No. 2 to the Contract for the Transfer of Finances concluded on 26 January 2011.

As of 31 December 2010, SŽDC records assets intended for the settlement of payables assumed from ČD, s.o. listed in the Appendix to the Transformation Act in the aggregate net book value of CZK 690,032 thousand. As of 31 December 2009, the net book value of these assets amounted to CZK 789,362 thousand.

## **7.6. Sale of Assets**

### **7.6.1. Sale of Redundant Assets**

In the year ended 31 December 2010, a total of 84 transactions were concluded with the agreed purchase price of CZK 23.6 million. Of this amount, the sales of 2010 amounted to CZK 21.49 million.

### **7.6.2. Sale of Residential Buildings**

All residential buildings according to the appendix to the Transformation Act, without established apartment cooperatives, were already sold in the prior period.

## **8. Post balance sheet events**

### **8.1. Redemption of Bonds**

In March 2004, SŽDC issued bonds in the aggregate amount of CZK 7 billion which matured in March 2011. The maturity date was complied with and the bonds were redeemed in full to the holders by the state at maturity. For additional information refer to Note 4.11.1.

### **8.2. Reorganisation of the Headquarters as of 1 April 2011**

On 1 April 2011, SŽDC's management decided to implement a new organisational change related to the Company's Headquarters. As of 31 March 2011, the following sections were cancelled: Technical Services, Strategy, Assets Management and Human Resources. With effect from 1 April 2011, the Headquarters have been organised into following five sections: Director General, Economy, Rail Operation, Rail Operability and Rail Modernisation.

With the exception of the events discussed in previous note disclosures, no other significant events occurred after the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

## XVII. CORPORATE DETAILS AND DIRECTORY

Name of the company:	Správa železniční dopravní cesty
Legal form:	state organization
Established by:	Czech Republic (establisher's function entrusted to the Czech Ministry of Transport)
Date of incorporation:	1 January 2003
Business Registration No.:	70994234
Registration court:	Prague
Entry details:	Section A, File 48384
Registered office:	Prague 1, Nové Město, Dlážděná 1003/7, PSČ 110 00
Phone:	222 335 777
Fax:	222 335 299
E-mail:	szdc@szdc.cz
Website:	www.szdc.cz

