



SPRÁVA ŽELEZNIČNÍ DOPRAVNÍ CESTY, STÁTNÍ ORGANIZACE

CZECH RAILWAY RECORDS



The maximum value of the gradient of the railway line in SŽDC's network on the line Liberec – (Tanvald) – Harrachov (rack section behind the train stop Dolní Polubný)

58 ‰

The lowest radius of the curve of the line in SŽDC's network a narrow-gauge line Třemešná in Silesia – Osoblaha (approximately on km 2,600 between Třemešná in Silesia and Liptaň) curve of the radius of

75 m

The highest-lying railway station SŽDC's network Kubova Huť on the line Strakonice – Volary at an elevation of

995 m

The lowest-lying railway station in SŽDC's network Dolní Žleb (on the line Děčín – Dolní Žleb) at an elevation of

131 m

The longest railway tunnel in SŽDC's network– Březenský tunnel on the line Prague-Bubny – Chomutov (in its recently relocated section between Březno u Chomutova and Chomutov),

1,758 m long



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I.

COMPANY PROFILE

The Railway Infrastructure Administration, state organization was established as of 1st 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 Act No. 266/1994 Coll., on Rail, 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 of the Czech Railways, state company.

AND 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 before 31.12.2002

and **CARRIES OUT BUSINESS ACTIVITY** in accordance with the Trade Licence Act.

PRINCIPAL OPERATIONS

Pursuant to valid 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
- path capacity allocation on the national and regional network owned by the Czech Republic
- supervision of the railway infrastructure utilization, of the rail operation and operability





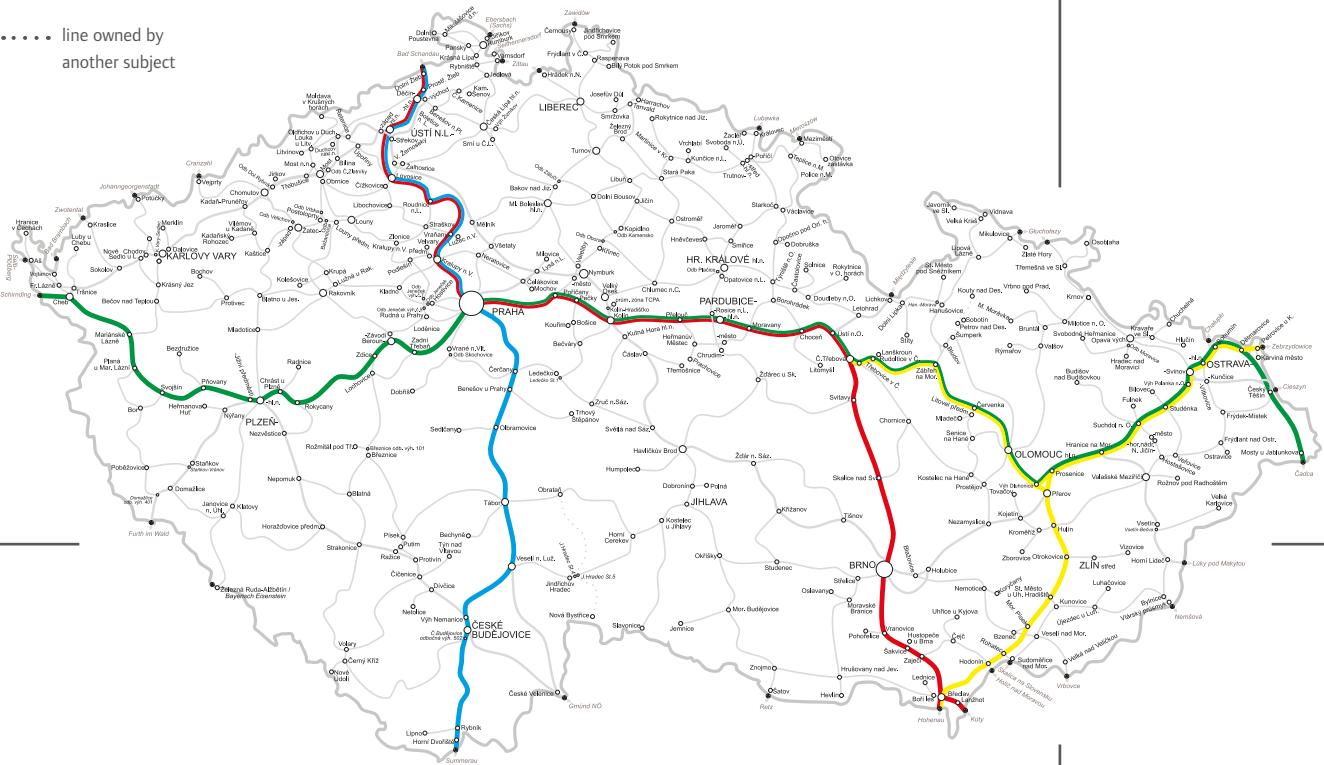
BASIC CHARACTERISTICS OF SŽDC RAILWAY NETWORK:

Indicator	Measure unit	Amount
Total length of tracks	Km	9,479
Length of electrified tracks	Km	3,153
Length of standard-gauge tracks	Km	9,456
Length of narrow-gauge tracks	Km	23
Length of single-track lines	Km	7,585
Length of double and multiple-track lines	Km	1,894
Total construction length of tracks	Km	15,577
Number of switch units	s. u.	24,946
Bridges		6,722
Tunnels		156
Total length of bridges	M	150,276
Total length of tunnels	M	42,750

MAP OF TRANSIT CORRIDORS, LINES OF TRANS-EUROPEAN RAILWAY NETWORK FREIGHT (TERNF)

- 1st transit corridor
- 2nd transit corridor
- 3rd transit corridor
- 4th transit corridor

..... line owned by another subject



II.

OPENING STATEMENT

Ladies and Gentlemen, Dear business partners,

The year 2009 marked the seventh year of the existence of the Railway Infrastructure Administration, state organization. A radical change within the railway organization took place in the course of the previous year when the Amendment to Act No. 77/2002 Coll. had been prepared and adopted, following which SŽDC assumed the operator's function of national and regional rail owned by the state from the Czech Railways, joint-stock company. Simultaneously with the transfer of the rail operator's function, SŽDC took over necessary technological, personnel and, partially, material resources. The year 2009 was thus the first year when the preparation and implementation of activities were provided exclusively by SŽDC. During 2009, this enhancement of the infrastructure manager's functions was manifested by the increased efficiency of the rail operator's functions and by enhanced transparency of the system by defining unequivocal responsibility of relevant bodies. In the area of providing the operability of the railway infrastructure, SŽDC already handles all activities under its own capacities and takes full responsibility for the condition and safety of the railway infrastructure. Also, a large number of other activities, e.g. the development of timetables, were fully handled by SŽDC capacities in 2009. However, Czech Railways, joint-stock company still provides work related to rail service, including supervisory control for SŽDC. Discussions on its transfer to SŽDC and on the completion of the assets transfer between both companies were proceeding practically throughout 2009; for the time being no agreement has been reached. The implementation of these anticipated changes, which are based on EU legislation, would be another step in creating equal conditions for all involved subjects, to enhance transparency and finally to increase the efficiency of the railway as a whole. By accomplishing these changes, SŽDC would take full responsibility for the rail operation but in the future it could make greater use of synergy-related changes.

As in previous years, SŽDC ensured the operation and operability of the railway infrastructure along all lines owned by the state, with the exception of those on which the rail operation was previously decided to be interrupted. In addition to these duties as the owner and operator of the majority of railway networks in the Czech Republic, we were also dealing with tasks of the organization authorized pursuant to Act No. 77/2002 Coll. to settle liabilities of the former Czech Railways, state organization in 2009. The results make it abundantly clear that we have succeeded in managing both of these functions. Another positive aspect is that the activities focusing on the area of rail operation, including its modernization and development, now unequivocally prevail.

2009 brought along an increase of challenges related to the provision of financial means for our activity. Evidence of the ongoing crisis had a gradual impact on the modernization and development (investment funds) and particularly on the rail service (a decrease in income from the track access charges). Another area where the economic crisis manifested itself at SŽDC was in the field of traction electric power supplies. In terms of investment funding, there was a significant increase in EU-funded constructions. Thanks to them, we could start other constructions along the path of the railway transit corridors and we also continued implementing rationalization projects which shall result in cutting operational expenses on some lines. Due to diminishing investment means, however, the implementation of some investments was slowed down.

In the future we intend to offer all carriers the safest and highest quality railway infrastructure. We firmly believe that the 2009 SŽDC results established a solid foundation for that.



Jan Komárek
Director General



Adolf Jílek
Chairman of the
Managing Board



Jan Komárek
Director General

III.

MANAGEMENT OF THE COMPANY

STATUTORY BODY

Director General

Jan Komárek

MANAGING BOARD

Chairman

Adolf Jílek

Members

Ivan Adamec

Vlastimil Aubrecht

Václav Janout

Roman Jurečko

František Sivera

Josef Smýkal

AUDIT COMMITTEE

Hana Březinová

František Sivera

Josef Smýkal

SŽDC MANAGEMENT

Director General

Jan Komárek

**Deputy Director General for
Strategy**

Bohuslav Navrátil

**Deputy Director General for
Rail Operation**

Jaromír Kadlec

**Deputy Director General for
Rail Operability**

Josef Novobilský

**Deputy Director General for
Modernization**

Miroslav Konečný

**Deputy Director General for
Technical Services**

Radek Vičar

**Deputy Director General for
Economy**

Vladimír Filip

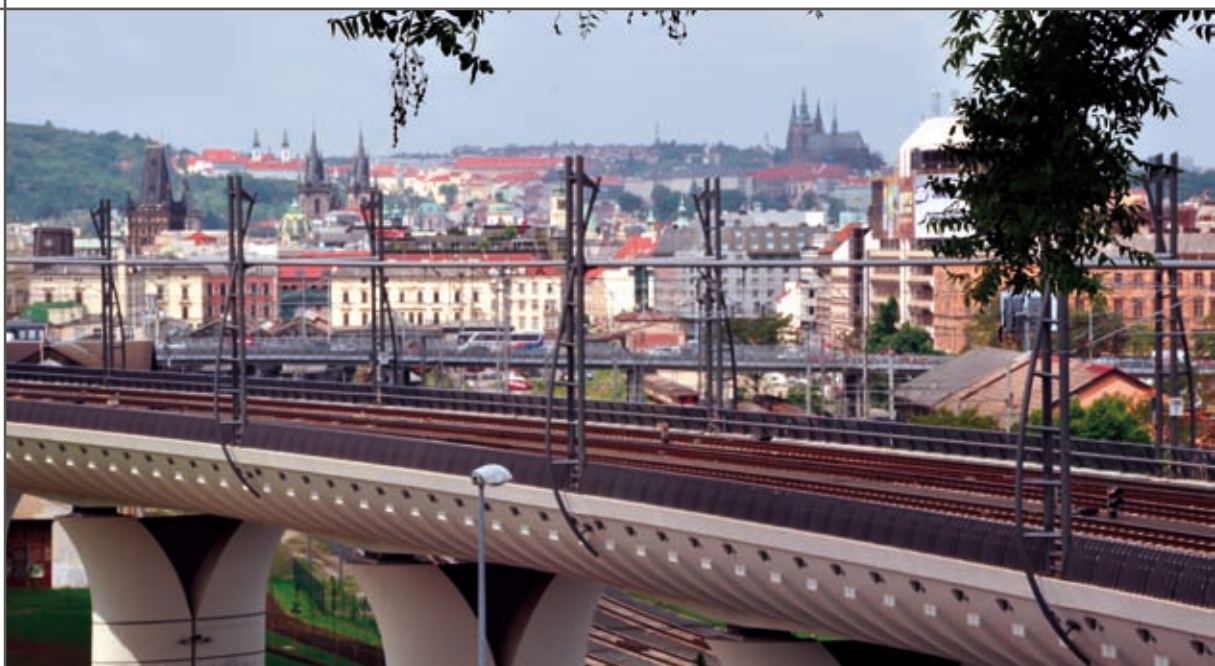
**Deputy Director General for
Assets Management**

Zita Karasová

**Deputy Director General for
Human Resources**

Zdeněk Jílek

The SŽDC's objective is to offer all carriers the safest and highest quality railway infrastructure.





From left
Vladimír Filip,
Miroslav Konečný,
Jaromír Kadlec,
Zita Karasová,
Jan Komárek,
Bohuslav Navrátil,
Radek Vičar,
Josef Novobilský,
Zdeněk Jílek

IV.

OPERATING THE RAILWAY INFRASTRUCTURE

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

Pursuant to Act No. 266/1994 Coll., on Rail, as amended (hereinafter referred to as the "Railway Act"), SŽDC is obliged to provide operation of the national and regional network owned by the state. SŽDC provides these obligations with its own capacities; only the work associated with the rail service, i.e. operation control in stations and on 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 rail of Trutnov – Svoboda nad Úpou and Sokolov – Kraslice were – based on a lease contract – operated by VIAMONT, a.s. in 2009; the regional rail Milotice nad Opavou – Vrbno pod Pradědem was operated – based on a lease contract – by OKD, Doprava, joint-stock company.

Classification of operators of the national and regional network owned by the state by the length of operated lines as of 31.12.2009:

– SŽDC	9,422 km
– VIAMONT, a.s.	37 km
– OKD, Doprava, joint-stock company	20 km

In 2009, the SŽDC cost of providing operation of the railway infrastructure amounted to CZK 5,658 million.

The item comprises both the cost resulting from a contractual relationship with the Czech Railways, a.s., and its own cost related to the rail service –primarily the central costs of organizing the rail transport, the cost of the operation of the telecommunication assets etc.



Thanks to this accomplishment, long-distance express trains and transit freight trains can travel from Poland via the Czech Republic, Slovakia and Hungary, further to the south of Europe in electric traction and at higher speed. Compared to the previous situation, there is no need to change the engines at the railway station Letohrad.

ELECTRIFICATION OF THE SECTION LETOHRAD – LICHKOV

New or reconstructed bridges and culverts	52
Modernized level crossings	23
New contact line system	33.9 km

OPERABILITY

V.

OF THE RAILWAY INFRASTRUCTURE

Rail operability relates to providing technical conditions of a rail ensuring its safe and smooth operation.

In 2009, the operability of the railway infrastructure managed by SŽDC was provided mainly by SŽDC's organizational units, i.e. Regional Infrastructure Departments (hereinafter referred to as "SDC"). The work related to the operability of the railway infrastructure is provided both by its own personnel, machinery or technical capacities and contractually by suppliers active on the market.

The constant need to optimize processes, which have been applied to efficiently provide an operative and safe railway infrastructure, led to modifications of procedures in the field of communication and signalling equipment and in the area of electrical engineering and power engineering in 2009.

As for the next period, the on-its-own provision of the railway infrastructure operability within the rail operation can be considered stabilized. We can assume that the ongoing optimization of processes and operationally-organizational procedures will enhance tendencies towards the outsourcing of other activities which have been managed on its own capacity so far.

The total cost (without amortization and the cost of eliminating the flood consequences) invested to provide the operability of the railway infrastructure amounted to CZK 9,133 million in 2009. Projects of the total cost of CZK 712 million related to the elimination of flood consequences in 2009 were implemented as well.

Overview of selected activities	Year 2009	Year 2008
Longitudinal and vertical alignment of tracks including completion of the railway bed	1,363 km	1,215 km
Longitudinal and vertical layout of switches including completion of the railway bed	1,019 s.u.	1,136 s.u.
Maintenance of railway bed – tracks including completion of the railway bed	110 km	122 km
Maintenance of railway bed – switches including completion of the railway bed	316 s.u.	314 s.u.
Set-up of contact-free tracks, welding-tracks	163 km	164 km
Set-up of contact-free tracks, welding-switches	257 s.u.	351 s.u.
Replacement of rails	336 km	214 km
Replacement of railroad ties including vertical track alignment	126,296	149,074



Between Znojmo and the capital of Vienna, there is a direct connection without the necessity to swap the engines. In addition to the decrease in the ecological impacts and to the enhancement of the railway operation safety, there are also good conditions to reduce the travelling time. A technically challenging reconstruction was conducted during the construction of the Znojemský viaduct across the valley of the Dyje River.

The construction was awarded by the Ministry of Finance of the Czech Republic within the competition 2009 Czech Transport Construction & Technology.

ELECTRIFICATION OF THE SECTION ŠATOV - ZNOJMO

Modernized section	12.5 km
New line speed	90 km/h
Reconstructed railway bridge spanning the Dyje river	220 m

MODERNIZATION AND DEVELOPMENT

VI.

OF THE RAILWAY INFRASTRUCTURE

In the field of the modernization and development of the railway infrastructure, the efforts of SŽDC are targeted, on a long-term basis, on the preparation and implementation of investment projects, highlighting the following priorities:

- Modernization of railway transit corridors
- Modernization of crucial railway junctions within the corridors
- Enhancement of safety at the level crossings
- Electrification of lines and power systems
- Preparation and implementation of projects equipping lines with the systems "Global System for Mobile Communication for Railway" (GSM-R) and "European Train Control System" (ETCS) and ensuring interoperability of tracks included in the European railway system
- Rationalization actions
- Optimization and reconstruction of other lines
- Construction and reconstruction of train stops, shelters and platforms etc.

MODERNIZATION OF RAILWAY TRANSIT CORRIDORS

In 2009, work proceeded with the modernization of the railway transit corridors. The 3rd Railway Transit Corridor runs in the path from the state border with Slovakia – Mosty u Jablunkova – Dětmárovice – Přerov – Česká Třebová – Prague – Pilsen – Cheb – to the state border with Germany. On the branch, Mosty u Jablunkova – Dětmárovice, construction work proceeded with the "Optimization of the section state border of Slovakia – Mosty u Jablunkova – Bystřice nad Olší" with completion anticipated in 2011. In June 2009, the second construction on this branch "Optimization of

the section Bystřice nad Olší – Český Těšín" began – the anticipated year of completion is 2012 – and project work on the third construction of the "Optimization of the section Český Těšín – Dětmárovice" proceeds. On the branch between Přerov and Česká Třebová, all constructions have been completed and the whole section has been put into operation.

In the section between Prague and Pilsen construction work proceeds with the "Optimization of the section Beroun – Zbiroh" and the anticipated year of completion is 2011. In May 2009, the "Optimization of the section Zbiroh – Rokycany" began and the anticipated year of completion is 2012. In 2010, the construction "Modernization of the section Rokycany – Plzeň" is anticipated to start. Furthermore, project work proceeds with the "Transit through the junction Pilsen" and with the construction Prague – Beroun, where a higher level of modernization is expected.

In April 2009, the implementation of the "Optimization of the section Pilsen – Stříbro" was completed. The implementation of the "Optimization of the section Stříbro – Planá u Mariánských Lázní" and the "Optimization of the section Planá u Mariánských Lázní – Cheb" proceed. The anticipated completion of these two constructions and thus the entire section from Pilsen to Cheb is projected for 2011.

In 2009, the "Optimization of the section Horní Dvořiště – České Budějovice" and the "Modernization of the section Veselí nad Lužnicí – Tábor – 1st part, Doubí u Tábora – Tábor" were completed on the 4th Railway Transit Corridor in the section Horní Dvořiště – České Budějovice – Prague. The implementation of the "Optimization of the section Benešov u Prahy





– Strančice” proceeds and the anticipated year of completion is 2010. In May 2009, the “Modernization of the section Votice – Benešov u Prahy” began and its anticipated completion is projected for 2013. In 2010, the “Modernization of the section České Budějovice – Nemanice” and the “Modernization of the section Ševětín – Veselí nad Lužnicí, 2nd part the section Horusice – Veselí nad Lužnicí” are anticipated to start. Furthermore, project work proceeds with all the other constructions on the 4th Railway Transit corridor.

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. The objective of this modernization is to provide technical parameters relevant to connecting corridor lines. Transits through the railway junctions Děčín, Ústí nad Labem, Kolín, Choceň and Bohumín are completed. Transits through the railway junctions of Břeclav, Písek are being implemented as well as the construction “Brno – 1st part of the storage siding”, i.e. the first phase of the reconstruction of Brno railway junction. “The modernization of the western part of Prague, the main station was completed and the construction “New Link” between the railway stations Prague, main station, Prague-Libeň, Prague Masarykovo station and Prague-Vysočany was put into operation. These two constructions are a part of the transit through the railway junction Prague and shall allow capacity-attractive and fast connection of the 1st Railway Transit Corridor to the main station in Prague by building two double-track tunnels and connecting flyovers. The construction of the “New

Link” is followed by the “Modernization of the section Prague-Libeň – Prague-Běchovice”, which has also been partially open for operation. The project made this section three-track because it is mainly burdened by heavy suburban traffic. This section is followed by the constructions “Optimization of the section Prague-Holešovice–Prague-Bubeneč” and the “Modernization of the section Prague-Běchovice – Úvaly”, which are about to commence and which will complete the transit of the 1st Corridor through Prague junction.

Furthermore, there are plans for transit constructions through the junctions of Prague, Brno, Pilsen, Pardubice, Ústí nad Orlicí, Česká Třebová and Olomouc. Projects for the sections Prague-Hostivař – Prague main station and Prague main station – Prague-Smíchov are being prepared; they will ensure linkage of the 3rd and 4th corridors to Prague junction. There are also projects for the “Modernization of the section Prague – Kladno with a connection to the Ruzyně airport” which shall provide a fast and capacity-attractive transport line between Prague and the conurbation of Kladno and at the same time it will enable a high-quality railway connection to the international airport Prague Ruzyně.

ENHANCING SAFETY AT RAILWAY CROSSINGS

During 2009, special attention was paid to railway crossings representing critical crash spots for road and railway vehicles. Under the program “Enhancing safety on railway crossings”, dozens of reconstructions of level crossings and signalling device were implemented in 2009, e.g.: “Reconstruction of the flash light

VI.

crossing signals on km 30,412 and 34,423 of the section Hodonín – Zaječř, “Reconstruction of the level crossing Červenka – Prostějov on km 2,486 (Litovel)”, “Reconstruction of the mechanical level crossing safety installation on km 91,544 to 92,078 of the section Ostrava – Kojetín”, “Reconstruction of the flash light crossing signals on km 277,622 of the section České Budějovice – Pilsen”, “Reconstruction of the crossing structure on km 14,064 of the section Horní Cerekev – Tábor”, “Reconstruction of the level crossing safety installation on km 80,860 and 81,098 of the section Protivín – Zdice”, “Reconstruction of the level crossing on km 128,027 of the section Chlumec nad Cidlinou – Trutnov Poříčř, including switch No. 6”, “Construction of the flash light crossing signals on km 70,300 of the section Stará Paka – Lomnice n. P.”, “Reconstruction of the flash light crossing signals on km 101,055 and 101,231 of the section Košťálov – Semily”.

In order to enhance the safety of the operation at level crossings, a system of the level crossing numbering was introduced, providing a uniform, simple and direct identification. The introduction of the proposed system of the level crossing numbering creates conditions to stop railway operation on that particular section – when necessary (level crossing accidents, obstacles etc.) – based on the information about the obstacle submitted by the public. The system has been in operation since 1st August 2009.

ELECTRIFICATION OF LINES AND POWER-SUPPLY SYSTEMS

Other significant investments include the electrification of lines. The electrification of the sections Ostrava–

Svinov – Opava and Ostrava main station – Ostrava–Kunčice was completed, and will provide for higher quality suburban traffic in the Ostrava region. In 2009, the constructions of the line electrification Letohrad – Lichkov, České Velenice – České Budějovice, Zábřeh – Šumperk, Šatov – Znojmo and Lysá nad Labem – Milovice were put into operation. The sections Brno – Jihlava and Otrokovice – Zlín are under preparation.

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 PROVIDING THE ‘INTEROPERABILITY’ OF LINES INTEGRATED INTO THE EUROPEAN RAILWAY SYSTEM

After the completion of the digital radio system GSM-R in the section Děčřn – Kolín, the implementation of the system on the remaining section of the 1st Railway Transit Corridor Kolín – Břeclav was completed in January 2009 and the implementation of the radio system began on the 2nd Railway Transit Corridor “GSM-R Břeclav – Přerov – Petrovice u Karviné” subsequently in March with an anticipated completion date in 2010. It will be followed by the implementation of GSM-R in the sections Ostrava – Mosty u Jablunkova – border with Slovakia, Přerov – Česká Třebová and Děčřn – Vřetaty – Kolín – Havlíčkův Brod – Křiřanov – Brno. The implementation of the pilot project of ETCS in the section Poříčřany – Kolín continues and its completion is projected for 2010. In 2010, it should be followed by the implementation in the section Kolín –





Břeclav – the state border with Austria/Slovakia and subsequently Kolín – Prague – Děčín – the state border with Germany. The construction of the Centralized Traffic Control building in Přerov is in the phase of implementation to which the supervision of all corridor lines in Moravia will be progressively interconnected. Preparatory plans continue on the second centralized traffic control, which will be situated in Prague and will run the operation on corridor lines in the Bohemian region.

The construction of “Inter-operability in the railway section Brno – Břeclav” is in the phase of implementation with an anticipated completion date in mid-2010.

RATIONALIZATION EVENTS

In 2009, the following construction plans were completed under the rationalization program: “Long-distance control of the signalling device Louny – Peruc”, “Long-distance control of the signalling device Hradčovice – Luhačovice”, “Long-distance control of the signalling device Přerov – Polanka n/O”, “Long-distance control of the signalling device Pilsen – Klatovy”, “Long-distance control of the signalling device Karlovy Vary – Potůčky”, “Rationalization of the railway junction Trutnov – Střed and Trutnov – Poříčí” and “Long-distance control of the section Krnov – Jindřichov ve Slezsku”.

“The rationalization of the section Jaroměř – Stará Paka – Železný Brod 2nd part” and “Long-distance control of the signalling device Střelice – Hrušovany n/J, 1st phase” are being implemented and the anticipated year of completion is 2010.

OPTIMIZATION AND RECONSTRUCTION OF OTHER LINES

In 2009, there were a number of reconstruction projects on lines or track sections, e.g. “Reconstruction of the track Malá Skála – Turnov on km 115,978 – 123,459”, “Reconstruction of the track Šluknov – Dolní Poustevna”, “Reconstruction of the track facility of the railway station Ptení”, “Reconstruction of the 1st line track Ústí Střekov – Boletice nad Labem”, “Reconstruction of the earthworks on km 5.3 – 5.5 Choceň – Týniště nad Orlicí” and others.

In addition to that, there are plans for the modernization of the section Hradec Králové – Pardubice making the section of Stěblová – Opatovice nad Labem double-track and the modernization of the section Brno – Přerov, which will provide a faster connection between Brno and Ostrava.

The optimization of the section Ostrava-Kunčice – Frýdek Místek – Český Těšín, Lysá nad Labem – Prague-Vysočany and the modernization of the section Pilsen – Česká Kubice are under preparation.

CONSTRUCTION AND RECONSTRUCTION OF TRAIN STOPS, SHELTERS AND PLATFORMS ETC.

In order to enhance the quality of travelling, there were preparations and implementations of new train stops, shelters and platforms for passengers. E.g. new stops for Krásný Jez, Trutnov-Volanov, Brandýs nad Labem-Zápská were put into use; a train stop for Biskupice and a structure at the Mořkov train stop were reconstructed.



UTILIZATION OF THE RAILWAY

VII.

INFRASTRUCTURE BY CARRIERS

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

As of 1st January 1995, the Czech Republic introduced a standard system of granting licences to operate rail transport and since 1st May 2004, there

has also been a licence to operate rail transport granted by EC member state authority.

The number of carriers utilizing the railway infrastructure has increased compared to 2008, in particular the number of carriers operating the freight transport.

THE TREND IN THE NUMBER OF CARRIERS (AS OF 31.12. OF THE RELEVANT YEAR)

Year	2003	2004	2005	2006	2007	2008	2009
No. of carriers	46	50	52	53	56	53	62

PERFORMANCE OF CARRIERS IN THE PERIOD OF 2005–2009

Year		2005	2006	2007	2008	2009
Passenger	[trkm]	113,298,184	116,302,650	118,387,288	121,939,150	125,911,649
Freight	[trkm]	41,458,299	42,084,461	43,466,460	43,685,964	36,594,939
Total	[trkm]	154,756,483	158,387,111	161,853,748	165,625,114	162,506,588
Passenger	[thousand gtkm]	21,978,020	22,594,373	23,103,133	24,155,227	24,989,309
Freight	[thousand gtkm]	36,162,955	37,857,278	39,250,794	37,996,173	30,584,797
Total	[thousand gtkm]	58,140,975	60,451,651	62,353,627	62,151,400	55,574,106

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.

SHARE OF CARRIERS PERFORMING FREIGHT TRANSPORT IN 2008 AND 2009 (IN %)

Carrier	gtkm 2009	trkm 2009	gtkm 2008	trkm 2008
ČD Cargo, a.s.	88.77	79.54	92.28	87.10
OKD, Doprava, joint-stock company	5.18	3.56	3.14	2.15
UNIPETROL DOPRAVA, s.r.o.	2.80	2.21	2.14	1.64
VIAMONT Cargo a.s.	0.75	0.62	0.50	0.47
Traťová strojní společnost, a.s.	0.50	1.38	0.30	1.07
Ostravská dopravní společnost, a.s.	0.42	0.30	0.16	0.16
České dráhy, a.s.	0.39	3.38	0.37	2.78
BF Logistics s.r.o.	0.19	0.23	0.16	0.20
RM LINES, a.s.	0.18	0.12	0.05	0.02
Other carriers	0.82	8.66	0.90	4.41

Note:

As of 31.8.2009 Viamont Cargo, a.s. was removed from the register of companies as a result of internal merger and all its assets passed over to OKD, Doprava, joint-stock company.

SHARE OF CARRIERS IN PASSENGER TRANSPORT IN 2008 AND 2009 (IN %)

Carrier	gtkm 2009	trkm 2009	gtkm 2008	trkm 2008
České dráhy, a.s.	99.82	99.18	99.82	99.14
VIAMONT a.s.	0.13	0.60	0.14	0.63
OKD, Doprava, joint-stock company	0.01	0.10	0.02	0.12
Other carriers	0.04	0.12	0.02	0.11

The track access charge for freight and passenger trains is a regulated price. Maximum prices are set through the Price Bulletin by the Ministry of Finance. As of 1.1.2009, there was a reduction in the maximum prices by 20% for track access both in passenger and freight.

SŽDC, as the allocator by authority of the Railway Act allocates the path capacity at a price agreed on by currently valid price regulations and the Network Statement, by specifying framework time routes of trains. SŽDC is obliged (during the process of path capacity allocation) to ensure equal track access for all carriers, with the aim of maximizing the utilization of the path capacity. Also, SŽDC issues the "National and Regional Network Statement", publishing detailed conditions for the path capacity allocation.

For the path capacity allocation SŽDC also started to utilize the information system KADR which makes the entire allocation process more effective and provides carriers with higher comfort.

The path capacity allocation for the timetable 2009/2010 based on the network Statement was requested in total by 16 carriers, out of which five carriers requested the capacity allocation for the passenger transport. After effective coordination, carriers were allocated the capacity and their requests were processed into the timetable for 2009/2010, which became effective on 13.12.2009.

On 4.12.2009, SŽDC published the National and Regional Network Statement valid for the timetable 2010/2011. This document has been redrafted pursuant to the common structure of RailNetEurope. The deadline for carriers' requests for path capacity allocation related to the timetable 2010/2011 is 12.4.2010.

IN 2009, SŽDC ALLOCATED THE TOTAL OF 4,279,685 PATHS WITHIN THE PROCESS OF THE PATH CAPACITY ALLOCATION

Type of the allocated capacity	Routes 2005	Routes 2006	Routes 2007	Routes 2008	Routes 2009
within the timetable	4,461,142	4,680,458	4,355,258	4,237,416	3,886,141
within the change of the timetable	171,564	68,720	77,986	163,433	167,490
ad hoc standard	26,430	18,058	60,408	43,169	77,479
requests in the residual capacity	36,723	50,832	78,299	150,691	148,575
Total	4,695,859	4,818,068	4,571,951	4,594,709	4,279,685

Note:

ad hoc – capacity allocated per case

VIII.

RAIL OPERATION SAFETY

One of the main parameters of the rail operation relates to the area of safety. SŽDC provides activities associated with rail operator's obligations pursuant to the Railway Act and Regulation No. 376/2006 Coll., on the System of Rail Operation Safety and on procedures during rail accidents.

Basic obligations resulting from acts and regulations include activities to enhance rail operation safety, to prevent accidents, to develop the analyses of rail operation safety risks, to implement outputs of such analyses as well as to report, investigate and evaluate the accidents and to apply relevant measures related to accidents. Individual procedures are set in SŽDC Organization Code, internal regulations and rail operator's instructions.

The figures on the present situation and development as regards accidents demonstrate a continuing decrease in the number of accidents for 2009 compared to previous years. Nonetheless, some categories of accidents, in particular collisions of rail and road vehicles at level crossings still show high numbers compared to the situation in railway administrations in neighbouring countries. The decrease in the total number of accidents mainly relates to the reconstruction and modernization of the railway infrastructure and to the introduction of up-to-date technologies as well as to the observance of set rules not only by the rail operator but also by all parties involved in the rail operation, operability, modernization and development as well as by relevant carriers and road users.



As of 31.12.2009, 8,274 state-owned level crossings were registered in the Czech Republic. The Railway Infrastructure Administration, state organization annually invests hundreds of millions in the modernization of level crossings. In 2009, nearly CZK 800 million was invested in the reconstruction and additional equipment of 135 level crossings and 63 unused or redundant level crossings were cancelled.

LEVEL CROSSINGS

Level crossings managed by SŽDC (as of 31.12.2009)	8,274
Modernized level crossings in 2009	135
Cancelled, unused and redundant level crossings in 2009	63

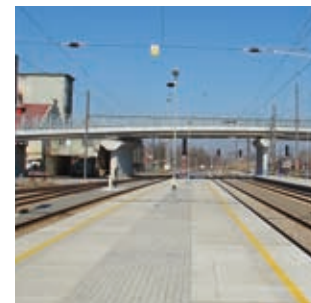
IX.

ASSETS MANAGEMENT

SŽDC manages state assets registered in two accounting spheres; in the sphere involving the railway infrastructure and in the sphere involving assets specified in the Amendment to the Transformation Act. The right concerning the management of the railway infrastructure became effective as of 1.1.2003 in compliance with the Transformation Act. The Amendment to the Transformation Act effected through Act No. 293/2004 Coll., in effect since 1.7.2004, 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 dispose of these assets.

Temporarily unnecessary assets of the railway infrastructure are rented to third parties. Revenues from these assets amounted to CZK 77.0 million in 2009. Permanently unused assets are sold off in accordance with the Transformation Act. During 2009, 167 business cases were closed where the agreed purchase price totalled CZK 48.9 million.

The assets specified in the Amendment to the Transformation Act, which are transferred through the process of privatization, are dealt with in accordance with the plan for assets management and the income is remitted to SŽDC through the Ministry of Finance. In 2009, revenues from privatization amounted to CZK 4.3 million. Other assets specified in the Amendment to the Act are sold in the form of direct sale. In 2009, sale of four items at the total amount of the agreed purchase price of CZK 13.9 million was effectuated. The assets specified in the Amendment to the Transformation Act are rented until sold. Revenues from this rental amounted to CZK 38.9 million in 2009. All the aforementioned revenues are designated to settle the debt of the former Czech Railways, state organization.



Modernization of the railway section **Doubí u Tábora – Tábor** has dealt with an almost 12 km-long section which is part of IV Railway Transit Corridor. The whole section was made double-track and the line speed was enhanced to 160 km/h. There are new island platforms providing comfortable and barrier-free access to trains.

The construction was awarded the Czech Transport Construction within the competition 2009 Czech Transport Construction & Technology.

MODERNIZATION OF THE SECTION DOUBÍ U TÁBORA - TÁBOR

New line speed for the particular section	110 km/h (160 km/h)*
Switches with electric heating	57
New lifts at the railway station Tábor	4

* for tilting boxes

X.

COMPANY ECONOMIC ACTIVITY

A. OPERATION AND OPERABILITY OF THE RAILWAY INFRASTRUCTURE

The cost of providing operation and operability of the railway infrastructure (without amortization and the cost of eliminating flood consequences) totalled CZK 14,791 million in 2009 and are comprised of the costs resulting from a contractual relationship with the Czech Railways and SŽDC's own costs related to the following activities. They mainly include staff costs and costs related to outsourcing for constructional work.

The cost was funded by the following sources:

revenues from the track access	CZK 4,289 million
of which:	
freight transport (ČD, a.s. and ČD Cargo, a.s.)	CZK 2,600 million
passenger transport (ČD, a.s.)	CZK 1,367 million
other carriers (except for ČD, a.s. and ČD Cargo, a.s.)	CZK 322 million
subsidies from the State Fund for Transport Infrastructure for repair and maintenance	CZK 8,005 million
non-investment subsidies from the state budget	CZK 1,460 million

The rest of the costs was funded by the balance of financial means from previous years, which were all drawn in 2009.

B. MODERNIZATION AND DEVELOPMENT OF THE RAILWAY INFRASTRUCTURE

The main sources funding the capital construction came from the State Fund for Transport Infrastructure and financial means from the European Union funds.

Within the implementation of investment actions related to the railway infrastructure, assets in the amount of CZK 18,960 million were purchased in 2009,

of which:	
SFTI for modernization	CZK 18,236 million
EU funds	CZK 672 million
Contributions from cities, municipalities, regions and other parties	CZK 52 million

C. RECEIVABLES AND LIABILITIES TAKEN OVER FROM THE FORMER CZECH RAILWAYS, STATE ORGANIZATION

As of 1.1.2003, SŽDC took over the current liabilities of the former Czech Railways, state organization. At present, all these liabilities have been settled, excluding those representing the subject of lawsuits, allowances and contributions to the pensions of former employees. Accruals have been established for these liabilities. At the same time, SŽDC took over, as of 1.1.2003, 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 towards the state by virtue of bonds issued in the amount of CZK 7,000 million payable in 2011.

As of 1.1.2003, 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 an arranged schedule of payments with debtors,

legal proceedings, debt collection through bailiffs or distrainers, ceding of receivables or write-offs of bad debts. As of 31.12.2009, the company records receivables taken over from Czech Railways in the amount of CZK 198 million.

In 2010, SŽDC will proceed with the settlement of separate 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, the period of limitation will expire before the legal collection including the distraint order, is effective. This will result in the write-off of receivables.

D. SŽDC ECONOMIC RESULT

The economic result for 2009 has been achieved with total revenues in the amount of CZK 26,663 million and

with total costs in the amount of CZK 26,961 million in the balance before tax CZK -298 million. Negative balance is not caused by the increase in the cost items, which remained on a comparable level in the recent period, but by the failure in the area of revenues due to decreased revenues from regulated lower prices for the track access compared to previous years.

Deferred tax in the amount of CZK -1,410 million has a negative impact on the total economic results. Accounting of the deferred tax does not influence SŽDC's financial flows, nor does it decrease the value of assets in 2009.

The following items had the most significant impact on the 2009 SŽDC's economic results after taxation in the amount of CZK -1,708 million.

	(in CZK million)
Payment for track access	4,289
Subsidy from SFTI for repair and maintenance	8,005
Subsidy from SFTI for eliminating flood consequences	712
Non-investment subsidies from the state budget	1,460
Other subsidies	62
SŽDC Remission of a debt according to CR Government Resolution No. 1553	6,357
Material, energy consumption and services	-12,717
Staff costs	-4,707
Book depreciation of SŽDC assets (including the railway infrastructure)	-4,618
Balance of other operating revenues and expenses	1,551
Operating profit/loss	+394
Interest expense and income	-979
Exchange rate difference	311
Other financial revenues and expenses	-24
Financial profit/loss	-692
Profit/loss before tax	-298
Deferred tax	-1,410
Profit/loss for the accounting period after tax	-1,708

X.

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 the only source for SŽDC to cover costs related to the rail maintenance and railway transport administration.

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

In 2009, a subsidy from SFTI was provided for projects dealing with the elimination of flood consequences. The repair work of an adequate volume related to the elimination was effected.

Other subsidies represent subsidies from the state budget for an accompanying social programme, i.e. providing funds for contributions for SŽDC's staff when the employment is terminated due to restructuring, SFTI subsidies for project work and expert activity (operationally-purpose-based) and EU subsidies.

Non-investment subsidies from the state budget/Ministry of Transport represent contributions not covered by SFTI which are provided to cover the costs of operation and operability of the railway infrastructure in public interest, when the income from track access charges paid by railway carriers is insufficient.

Significant revenue item is the settlement of SŽDC's liabilities (the so-called "remission") in compliance with CR Government Resolution No. 1553 dated 30.11.2005, which represents a book entry only, without any receipt of financial means.

The most significant cost item represents material consumption, our own energy consumption and services. The area of services mainly includes the costs of providing the operation of the railway infrastructure – rail maintenance (on a contractual basis with ČD, a.s.), SŽDC's own costs related to rail maintenance and costs of external repair work and maintenance, especially to provide operability of the railway infrastructure including costs of eliminating flood consequences.

SŽDC's staff costs include labour cost, social security expenses and social cost.

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

The balance of other SŽDC's operating revenues and expenses includes other revenue and cost items, e.g. revenues from fixed assets and material sale reduced by net book value, the difference between revenues and expenses from the sale of electrical traction and non-traction power, revenues from external outputs and rentals, activation, revenues from gained material, taxes and fees, the change of reserves and provisions, insurance of property and responsibility.

Cost interest results mainly from bank loans and bonds issued by SŽDC at the nominal value of CZK 7,000 million in 2004. The revenue of this issue is purposefully bound to the settlement of the debt of the former Czech Railways, state organization. As specified in the Annex to the financial statement, this interest is paid to bank institutions by the Ministry of Finance on behalf of SŽDC, which results in the increase of SŽDC's liabilities to the state.

Exchange rate differences result from foreign currency liabilities, loans and interest, re-translated using the exchange rate valid as of 31.12.2009. Given that the Czech currency strengthened against other currencies throughout 2009, in which the particular loans were denominated, the accounted Czech crown value of these liabilities decreased and the difference was, in line with valid regulations, accounted as revenue.

The 2009 economic result also includes a tax cost by virtue of deferred tax obligation. Items which the deferred tax consists of are enclosed to the financial statement.

E. RISKS AND INSECURITIES AFFECTING THE ECONOMIC AND FINANCIAL SITUATION IN 2009

Since 1.1.2009, there has been a decrease of maximum prices for the track access both in passenger and freight transport by 20%. This decrease of maximum prices together with the decrease of outputs in the freight transport was markedly reflected in 2009 in the decreasing revenues from the track access and, at the same time, in the decline in related financial income. Maximum prices are set by the Ministry of Finance.

The worldwide economic crisis had a negative impact on the output in the railway freight transport. Compared to 2008, freight transport in train kilometres decreased by 16.23% and in gross ton kilometres by 19.51% in 2009. The trend in the output of carriers on the railway infrastructure in the period 2005–2009 is described in the chapter “Utilization of the Railway Infrastructure by Carriers”.

The track access charge collected from rail operators is used to cover activities related to rail maintenance, rail transport administration and the cost of providing operability which cannot be covered from SFTI. However, the charge was not high enough to cover the cost of rail maintenance (over the course of past years the revenue from the track access charge allowed partial supplementary financing of the railway infrastructure operability) and caused a financial deficit in the system of financial flows of SŽDC amounting to over CZK 2 billion. in 2009. The Ministry of Transport tried to handle the difficult situation by providing additional contribution for the infrastructure to the amount of CZK 1.1 billion. The rest was funded by the balance of financial means from previous years, which were all drawn.

F. ANTICIPATED ECONOMIC AND FINANCIAL SITUATION IN 2010

In 2010, SŽDC’s economic activity will be largely influenced by the cost of providing operation of the railway infrastructure and its operability, by the revenues from track access charges, the amount of SFTI subsidies and non-investment subsidies from the Ministry of Transport, the amount of SŽDC’s liabilities towards the state approved by the Government, the amount of assets depreciation, production and spending of reserves and provisions, the amount of loan interest, the influence of exchange rate imbalances from converted payments and the balance of loans and interest.

The deficit tendencies in the field of providing financial means for rail maintenance and rail transport administration and for activities related to the railway infrastructure operability, which cannot be funded from SFTI, will be continuing in 2010. As in 2009, the amount of the collected charge will not be sufficient to cover the cost of rail maintenance and rail transport administration and the activities related to the railway infrastructure operability, which cannot be funded from SFTI.

Even though there is a change in the area of freight transportation and compared to 2009 we can expect a slight increase in transportation output in 2010, the amount of revenues from the charge is still influenced by the 20% decrease of the maximum price and does not achieve the necessary level. Judging by the aforementioned causes, which cannot be efficiently influenced by SŽDC’s activity, we can anticipate the financial sources deficit of CZK 1.8 billion in the system of SŽDC’s funding and economic activity in 2010.

The final balance of CZK 1.8 billion in 2010 corresponds to the lack of supplementary financing of the cost of rail maintenance, rail transport administration and the activities related to the railway infrastructure operability, which cannot be funded from SFTI. In 2010, the financial deficit cannot be covered from internal bank sources of SŽDC, for they have already been drawn to cover the deficit in 2009.

HUMAN RESOURCES, PAYROLL

XI.

AND BENEFITS

As of 1.1.2009, SŽDC had 10,438 employees, assigned into 21 organizational units according to their positions and regions and into directorates providing methodical, strategic and organizational function in the organization. Throughout the year, the optimisation of the staff number continued, which resulted in the decrease of staff costs share. As of 31.12.2009, SŽDC had 9,929 employees.

In terms of remuneration in 2009, there was a united wage-payment system applied, resulting from the SŽDC Company Collective Agreement for the period 2009–2013. Within the collective bargaining, two amendments to the Company Collective Agreement were effected, whereas the first one focused on technical modifications of several provisions, and the other one in line with the original version specified the remuneration method for 2010.

As originally anticipated, obligatory staff training for employees in operations was carried out in 2009. In the area of other educational activities, staff training and professional development were carried out based on the current needs and changes in legislation and relevant to the business or job description of an employee.

SŽDC staff was provided with preventive medical care through a selected health-care facility. In line with valid legal regulations, including the Company Collective Agreement, throughout the year employees' amenities were available, e.g. the possibility to obtain employer's contribution to the pension scheme and life insurance or meal allowances. The Cultural and Social Needs Fund also covered some cultural and sports activities, including the participation in international railway events, holidays with employer's contribution etc. The Cultural and Social Needs Fund was used in accordance with adopted principles for the creation and use of the Cultural and Social Needs Fund for 2009.

In the area of staff's health and safety protection, attention was paid to eliminating defects that could become the cause of accident. In 2009, the number of the so-called serious job-related injuries decreased.



Modernization of the western part of the railway station Prague-central station. Modernized western part of the platforms of the railway station Prague-central station markedly enhanced the comfort and safety of passengers. All platforms have been provided with new shelters for extended sections, a new information system and a high-quality sound distribution and can be accessed to by staircase, escalators as well as passenger lifts. The Prague-central station now represents a modern station by European standards.

The construction was awarded the Czech Transport Construction within the competition 2009 Czech Transport Construction & Technology.

MODERNIZATION OF PRAGUE - MAIN STATION

Length of modernized platforms	1,686 m
New escalators and lifts	32
New information and navigation equipment	197

XII.

ENVIRONMENTAL PROTECTION

The minimization of negative impacts on the environment induced from SŽDC's operations and its protection, represent an integral part of providing operation, operability and modernization of the railway infrastructure. The environmental protection in SŽDC's setting is a sectional activity which is fully integrated into all activities.

The main elements of the environment affected by SŽDC's operations include waste economy, water management, air-protection against polluting substances, nature and landscape protection, noise and vibration measures. During the preparation and implementation of projects, SŽDC prefers such technologies and procedures which are overall environmentally-friendly.

In order to maintain its competitive advantage concerning the environmental protection (and to strengthen its position even more), the railway sector has to minimize various negative impacts on the environment, such as noise, vibration, dustiness, air pollution, waste accumulation, etc. This topic has been on the agenda of the International Union of Railways for a long time and in 2009 it developed a strategy for this area (Rail Environment & Sustainability Strategy 2030 and beyond). One of the solutions might be the development of environmental managerial systems which are applied at SŽDC.





Reconstruction of the track and switches at the railway station Česká Kubice – in terms of the railway infrastructure, this station is a significant cross-border station to the Federal Republic of Germany. The crucial issue for the passenger transport was to build new platforms. The construction has also solved the succession to the line safety and signalling equipment in the direction to Domažlice and Furt im Wald.

RECONSTRUCTION OF TRACKS AND SWITCHES ČESKÁ KUBICE

New platforms	280 m
New width of platforms	3 m
Reconstructed switches	11

XIII.

INTERNATIONAL RELATIONS

In 2009, SŽDC deepened cooperation with European institutions, international railway organizations and other foreign companies, especially from neighbouring countries as in previous years. SŽDC still considers international cooperation one of its most significant activities since it realizes that isolated railway companies could never stand up to competition in European transport scale. The Czech Republic, as an EU member, committed itself to build interoperable corridors with the objective to connect our railway lines with international paths of European significance.

SŽDC heads the all-European Management Committee for the ETCS implementation (European Train Control System) on Corridor E, i.e. in the section Dresden – Děčín – Prague – Bratislava/Vienna – Budapest – Bucharest – Constanta. It coordinates deployment of ERTMS/ETCS systems in the member states. On Czech territory, the pilot project of ETCS L2 (level 2) is being finished, followed by the 1st phase of equipping the Czech section of ETCS Corridor E in the section Kolín – Břeclav state border Slovakia/Austria with this system. After the implementation of the pilot project of the radio system GSM-R in the section Děčín – Kolín, the remaining section of the entire 1st Railway Transit Corridor was completed in 2009.

SŽDC enforces principles of the European transport policy in which it also actively participates.

The international activity may be divided into two areas:

- bilateral international cooperation with neighbouring states
- cooperation with European institutions and international railway organizations

BILATERAL INTERNATIONAL COOPERATION WITH NEIGHBOURING STATES

Assuming further responsibilities, SŽDC also strengthened international bilateral relations.

In 2009, the following projects were internationally discussed and coordinated:

1. with the German company DB Netz
 - renovation of the railway crossing Dolní Poustevna – Sebnitz
 - preparation for the construction Cheb state border – Marktredwitz
 - preparation for the construction Domažlice – Furth im Wald
2. with the Austrian railway company ÖBB
 - electrification of the Znojmo – Šatov – Retz railway line
 - electrification of the line and inter-connection of the safety and signalling equipment between České Velenice and Gmünd





3. with the Slovak Railways ŽSR

- preparation for a full reconstruction of a cross-border bridge spanning the Morava river
- optimization of the section state border with SR
 - Mosty u Jablunkova – Bystřice nad Olší
- preparation for the reconstruction of Střelenský tunnel

4. with the Polish Railway PKP

- electrification of the railway section Letohrad
 - Lichkov – state border with Poland
- restoration of the railway section Harrachov
 - Szklarska Poreba

COOPERATION WITH EUROPEAN INSTITUTIONS AND INTERNATIONAL RAILWAY ORGANIZATIONS

In 2009, SŽDC experts participated, together with the Ministry of Transport, in legislative consultations dealing with directives on the railway transport (track access charges, multi-annual contracts between the state and infrastructure managers, regulation of the path capacity allocation for freight etc.). SŽDC is a full member and is involved in the work of the International Union of Railways, the Community of European Railway and Infrastructure Companies and the Association of European Infrastructure Managers RNE. Together with ČD, a.s. it represents the state in the international organization OSŽD. SŽDC's experts cooperate on the issue of regulations with CEN and CENELEC.

SŽDC is a full member of the International Union of Railways (UIC), Infrastructure Forum and Environmental Platform and its experts are mostly involved in projects dealing with the issues of infrastructure, environment and safety (Innotrack, ERIG, GSM-R ENIR, Galileo etc.)

SŽDC's experts are members of the working groups of the Community of European Railway and Infrastructure Companies (hereinafter referred to as "CER"). CER associated with over 70 railway organizations in 2009. At present, CER is considered the most influential association of railway companies and it is therefore worth mentioning that SŽDC's Director General held office of its Vice-president in 2009.

As of 1st January 2009, SŽDC became a member of the Association of European Infrastructure Managers (hereinafter referred to as "RNE"). This association is represented by infrastructure managers, rail operators and path capacity allocators; a total of 35 companies from 24 European countries. The RNE's main objective is to facilitate carriers' access to the infrastructure for international transport and to coordinate the implementation of TAF TSI. SŽDC's experts in all working groups of RNE (Network Statement, Timetable, Marketing and Sales, Legal Matters and Quality and Operations) prepare common procedures to unite conditions of carriers' access to the railway network of the member states. RNE defined 10 corridors which represent the primary network of European railways. A SŽDC's representative is manager of Corridor 10 (Hamburg – Prague – Budapest).

XIV.

FUTURE DEVELOPMENT

In compliance with principal operations, the Railway Infrastructure Administration fulfilled its obligations as the owner of national and regional rail by the directive of the Railway Act in the previous period.

In 2010, SŽDC's key task will be to monitor the infrastructure scope in terms of the railway transport demand. The priority when allocating funds for the maintenance and repair of the railway infrastructure will be to focus on the lines with a significant future transport potential.

Providing 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 on other selected railway sections and in railway junctions; or the electrification are understood as the means of enhancing the attractiveness of railway transport.

By introducing state-of-the-art technologies and rationalization investments, we will keep monitoring the decrease of manpower's participation in organizing and managing railway transport. The pursued objective shall not be the rationalization of only the number of staff, but mainly the enhancement of these activities' efficiency and decreasing the risk of flaws caused by human factor. A significant effect of applying modern technical systems of long-distance control is, in addition to the aforementioned effects, a considerable enhancement of smoothness and evenness of vehicles movement along the railway infrastructure, which brings along substantial savings of traction energy consumption on the part of carriers on top of the enhanced track capacity. This effect may again contribute to enhancing the competitiveness of the railway sector.

In future, due attention will have to be paid to the system specification which will control the carriers' performance in relation to charges for using the railway infrastructure.

Meeting conditions of railway infrastructure interoperability, in particular electromagnetic compatibility which will allow foreign rail vehicles access to the railway infrastructure operated by us, is an essential factor not only in terms of meeting conditions placed upon us by virtue of European Union membership, but also to strengthen the competitiveness of the railway network of the Czech Republic within the European Transport Market. It will create conditions for enhancing further economic development. In this context, we shall also pay attention to the implementation of projects concerning the deployment of GSM-R and ETCS systems.

In cooperation with railway users, SŽDC will continue to be creatively involved in the concept of regional development, European multi-modal freight corridors, conventional and high-speed networks of passenger transport. Providing necessary transport services is considered the prerequisite for the economic development of the state. SŽDC, as the railway infrastructure administrator, is ready in its scope of activity to contribute to the optimal utilization of the entrusted potential to the development of a functional transport system complying with needs, environmentally-friendly and satisfying the requirements for high-quality, competitive and safe transport.

Within the context of fulfilling obligations of the Government Resolution No. 848 dated 25th July 2007 and No. 1352 dated 4th December 2007, SŽDC cooperates with the establisher and other partners on further steps of the restructuring process of the Czech Railways, joint-stock company and the Railway Infrastructure Administration, state organization. It mainly involves the transfer of rail service functions from ČD, a.s. to SŽDC and the completion of the transfer process of the remaining assets (station grounds on which the state-owned railway infrastructure and a rail-related telecommunications facility are situated). The full implementation of the aforementioned steps shall result in completing the transfer process of rail operator's functions and SŽDC will become a fully-responsible rail operator.

INDEPENDENT AUDITOR'S REPORT

To the Management of Správa železniční dopravní cesty, státní organizace

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

Identification number: 70994234

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 22 April 2010 on the financial statements which are included in this annual report in Section XV:

"We have audited the accompanying financial statements of Správa železniční dopravní cesty, státní organizace ("SŽDC"), which comprise the balance sheet as of 31 December 2009, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body of SŽDC is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Správa železniční dopravní cesty, státní organizace as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Emphasis of Matters

Without qualifying our opinion we draw attention to the following matters:

As discussed in Note 7.2. to the financial statements, SŽDC provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set in accordance with Pricing Act

No. 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.

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. These specifically involved long-term amounts owed to banks and the State, and short-term amounts owed to suppliers, taxation authorities, health insurers, social security administrators, etc. Substantially all of the short-term payables were settled as of 31 December 2009. 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 2009 and 2008, payables of CZK 6.36 billion and CZK 6.37 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 8.1. to the financial statements, based on the results of a tender SŽDC concluded a contract for the supply of traction electricity for 2009 to 2011 with ČEZ Prodej, s.r.o. in 2008. However, during 2009, SŽDC's efforts to enter into a contract with ČD Cargo regarding the price of consumed energy were not successful and hence the receivables arising from the supply of traction electricity were paid by this carrier at a lower unit price than actually billed. As further discussed in Note 4.4.1. to the financial statements, SŽDC therefore recognised aggregate provisions of CZK 286 million in respect of the receivables from ČD Cargo as of 31 December 2009.

As discussed in Note 8.1. to the financial statements, as a result of the amendment to the Energy Act which facilitated the subsequent transfer of customers – carriers to a different traction electricity supplier, SŽDC has not been taking the originally anticipated volume of electricity from ČEZ Prodej, s.r.o. with effect from 1 January 2010. ČEZ Prodej s.r.o. is seeking payment from SŽDC to settle the difference between the anticipated and the realised substitute sale. SŽDC's management believes that this claim does not comply with the concluded contract. At present, legal opinions of both parties are being clarified. The ultimate outcome of the matter cannot presently be determined, and no reserve or liability that may result have been recognised in the financial statements.

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 the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

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

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

In Prague on 22 April 2010

Audit firm:



Deloitte Audit s.r.o.
Certificate No. 79

Statutory auditor:



Václav Loubek
Certificate No. 2037

Balance Sheet Full Version

As of 31.12.2009 (in CZK thousand)

			31.12.2009	31.12.2008
	Gross	Adjustment	Net	Net
TOTAL ASSETS	183,624,966	85,524,335	98,100,631	101,671,417
B. Fixed assets	175,691,725	84,925,435	90,766,290	92,341,881
B.I. Intangible fixed assets	183,768	79,370	104,398	70,185
B.I.3. Software	181,220	78,753	102,467	67,824
B.I.6. Other intangible fixed assets	2,548	617	1,931	2,361
B.II. Tangible fixed assets	175,507,957	84,846,065	90,661,892	92,271,696
B.II.1. Land	6,430,138	42,327	6,387,811	6,293,859
B.II.2. Structures	134,099,653	72,508,180	61,591,473	64,222,909
B.II.3. Individual movable assets and sets of movable assets	19,726,283	11,341,051	8,385,232	9,112,953
B.II.7. Tangible fixed assets under construction	6,998,811	180,794	6,818,017	4,668,433
B.II.8. Prepayments for tangible fixed assets	60,813		60,813	8,846
B.II.9. Valuation difference on acquired assets	8,192,259	773,713	7,418,546	7,964,696
C. Current assets	7,930,075	598,900	7,331,175	9,276,191
C.I. Inventories	269,133	50	269,083	235,517
C.I.1. Material	268,268	50	268,218	234,396
C.I.2. Work in progress and semifinished goods	849		849	1,000
C.I.5. Goods	12		12	9
C.I.6. Prepayments for inventory	4		4	112
C.II. Long-term receivables	2,192		2,192	1,903
C.II.1. Trade receivables	954		954	675
C.II.5. Long-term prepayments made	1,238		1,238	1,228
C.III. Short-term receivables	6,450,650	598,850	5,851,800	5,782,726
C.III.1. Trade receivables	3,133,743	512,590	2,621,153	2,615,170
C.III.6. State – tax receivables	1,537,236		1,537,236	1,447,860
C.III.7. Short-term prepayments made	122,004		122,004	99,859
C.III.8. Estimated receivables	1,505,808	21,104	1,484,704	1,487,207
C.III.9. Other receivables	151,859	65,156	86,703	132,630
C.IV. Current financial assets	1,208,100		1,208,100	3,256,045
C.IV.1. Cash on hand	4,147		4,147	4,647
C.IV.2. Cash at bank	1,203,953		1,203,953	3,251,398
D. I. Other assets	3,166		3,166	53,345
D.I.1. Deferred expenses	2,686		2,686	2,133
D.I.3. Accrued income	480		480	51,212

	31.12.2009	31.12.2008
TOTAL LIABILITIES & EQUITY	98,100,631	101,671,417
A. Equity	59,562,282	60,960,446
A.I. Share capital	52,749,204	52,542,494
A.I.1. Share capital	52,749,204	52,542,494
A.II. Capital funds	779,089	655,656
A.II.2. Other capital funds	779,089	655,656
A.III. Statutory funds	1,072,452	944,885
A.III.1. Statutory reserve fund/Indivisible fund	1,038,720	926,418
A.III.2. Statutory and other funds	33,732	18,467
A.IV. Retained earnings	6,669,801	5,694,390
A.IV.1. Accumulated profits brought forward	6,669,801	5,694,390
A.V. Profit or loss for the current period (+/-)	-1,708,264	1,123,021
B. Liabilities	38,233,482	40,372,762
B.I. Reserves	323,655	300,682
B.I.4. Other reserves	323,655	300,682
B.II. Long-term liabilities	13,797,297	16,446,025
B.II.1. Trade payables	1,239,900	814,823
B.II.6. Bonds issued	7,000,000	7,000,000
B.II.9. Other payables	2,154,707	6,638,778
B.II.10. Deferred tax liability	3,402,690	1,992,424
B.III. Short-term liabilities	9,187,215	7,626,545
B.III.1. Trade payables	6,056,274	4,486,580
B.III.5. Payables to employees	256,469	254,357
B.III.6. Social security and health insurance payables	122,769	132,296
B.III.7. State – tax payables and subsidies	2,027,341	1,913,257
B.III.8. Short-term prepayments received	90,771	65,399
B.III.10. Estimated payables	559,989	697,377
B.III.11. Other payables	73,602	77,279
B.IV. Bank loans and borrowings	14,925,315	15,999,510
B.IV.1. Long-term bank loans	14,246,947	15,999,510
B.IV.2. Short-term bank loans	678,368	
C. I. Other liabilities	304,867	338,209
C.I.1. Accrued expenses	268,027	267,373
C.I.2. Deferred income	36,840	70,836

Profit and Loss Account Structured by the Nature of Expense Method

Year ended 31.12.2009 (in CZK thousand)

	Year ended 31.12.2009	Year ended 31.12.2008
I. Sales of goods	105	4
A. Costs of goods sold	99	4
+ Gross margin	6	
II. Production	9,024,395	10,179,171
II.1. Sales of own products and services	8,691,779	9,888,543
II.2. Change in internally produced inventory	-151	-2,601
II.3. Own work capitalised	332,767	293,229
B. Purchased consumables and services	15,914,777	15,987,828
B.1. Consumed material and energy	4,293,635	3,621,592
B.2. Services	11,621,142	12,366,236
+ Added value	-6,890,376	-5,808,657
C. Staff costs	4,706,583	2,498,832
C.1. Payroll costs	3,377,908	1,775,824
C.2. Remuneration to members of statutory bodies	1,170	4
C.3. Social security and health insurance costs	1,096,174	610,946
C.4. Social costs	231,331	112,058
D. Taxes and charges	40,441	27,089
E. Depreciation of intangible and tangible fixed assets	4,617,833	4,182,257
III. Sales of fixed assets and material	206,441	317,703
III.1. Sales of fixed assets	67,274	46,611
III.2. Sales of material	139,167	271,092
F. Net book value of fixed assets and material sold	155,483	290,508
F.1. Net book value of sold fixed assets	18,462	21,874
F.2. Book value of sold material	137,021	268,634
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	348,520	33,973
IV. Other operating income	17,029,172	15,566,165
H. Other operating expenses	82,059	90,686
* Operating profit or loss	394,318	2,951,866
VIII. Income from current financial assets	937	24,477
X. Interest income	36,996	124,208
N. Interest expenses	1,016,152	1,165,408
XI. Other financial income	364,969	46,509
O. Other financial expenses	79,067	465,324
* Financial profit or loss	-692,317	-1,435,538
Q. Income tax on ordinary activities	1,410,265	393,307
Q 2. – deferred	1,410,265	393,307
** Profit or loss from ordinary activities	-1,708,264	1,123,021
*** Profit or loss for the current period (+/-)	-1,708,264	1,123,021
**** Profit or loss before tax	-297,999	1,516,328

Statement of Changes in Equity

Year ended 31.12.2009 (in CZK thousand)

	Share capital	Capital funds	Statutory funds	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2007	40,658,261	622,372	796,288	4,476,523		1,358,893	47,912,337
Received gift		8,400					8,400
Assets identified during stock counts		24,884					24,884
Distribution of profit or loss			141,026	1,217,867		-1,358,893	
Free of charge transfers of assets and other share capital movements	254,509						254,509
Privatisation	-222,377						-222,377
Use of the culture and social needs fund			-23,775				-23,775
Subsidies to the culture and social needs fund			31,346				31,346
Change in share capital - grant for the purchase of business part	11,852,101						11,852,101
Profit or loss for the current period						1,123,021	1,123,021
Balance at 31 December 2008	52,542,494	655,656	944,885	5,694,390		1,123,021	60,960,446
Received gift		18,885					18,885
Assets identified during stock counts		104,548					104,548
Distribution of profit or loss			147,610	975,411		-1,123,021	
Free of charge transfers of assets and other share capital movements	218,251						218,251
Privatisation	-11,541						-11,541
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
Balance at 31 December 2009	52,749,204	779,089	1,072,452	6,669,801		-1,708,264	59,562,282

Cash Flow Statement

Year ended 31.12.2009 (in CZK thousand)

	Year ended 31.12.2009	Year ended 31.12.2008
P. Opening balance of cash and cash equivalents	3,256,046	3,216,710
Cash flows from ordinary activities		
Z. Profit or loss from ordinary activities before tax	-297,999	1,516,328
A.1. Adjustments for non-cash transactions	-458,170	-809,590
A.1.1. Depreciation of fixed assets	4,617,833	4,182,257
A.1.2. Change in provisions and reserves	348,520	33,973
A.1.3. Profit/(loss) on the sale of fixed assets	-53,128	-766,358
A.1.5. Interest expense and interest income	978,219	1,016,723
A.1.6. Adjustments for other non-cash transactions	-6,349,614	-5,276,185
A.* Net operating cash flow before changes in working capital	-756,169	706,738
A.2. Change in working capital	1,114,555	-1,957,011
A.2.1. Change in operating receivables and other assets	-363,803	-1,132,160
A.2.2. Change in operating payables and other liabilities	1,511,924	-617,621
A.2.3. Change in inventories	-33,566	-207,230
A.** Net cash flow from operations before tax and extraordinary items	358,386	-1,250,273
A.3. Interest paid	36,317	-23,860
A.4. Interest received	37,933	148,685
A.*** Net operating cash flows	432,636	-1,125,448
Cash flows from investing activities		
B.1. Fixed assets expenditures	-2,718,949	-11,602,944
B.2. Proceeds from fixed assets sold	71,590	788,232
B.*** Net investment cash flows	-2,647,359	-10,814,712
Cash flow from financial activities		
C.1. Change in payables from financing	166,777	127,394
C.2. Impact of changes in equity		11,852,102
C.2.1. Cash increase in share capital		11,852,102
C.*** Net financial cash flows	166,777	11,979,496
F. Net increase or decrease in cash and cash equivalents	-2,047,946	39,336
R. Closing balance of cash and cash equivalents	1,208,100	3,256,046

Notes to the Financial Statements for the Year Ended 31 December 2009

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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 2009.

1.2. Principal Operations

SŽDC principally engages in operating the railway infrastructure and securing its operability, modernisation and development. The operability of the railway infrastructure throughout the year ended 31 December 2009 was provided by SŽDC’s internal capacities. Only 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 7.4. 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 Act No. 77/2002 Coll. 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. Purchase of the Business Part

Pursuant to the Contract for the Sale of the Business Part, the Company acquired part of ČD, a.s. composed of 18 organisational units and certain divisions of the general directorate of ČD, a.s. engaged in the operations of routes including the personnel, asset and technical base on 1 July 2008. As such, the Company took over fixed assets (land, buildings, structures, movable assets and other assets), inventory, current financial assets, receivables, accruals and deferrals and liabilities for the aggregate purchase price of CZK 11,852,101 thousand.

1.4. 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.

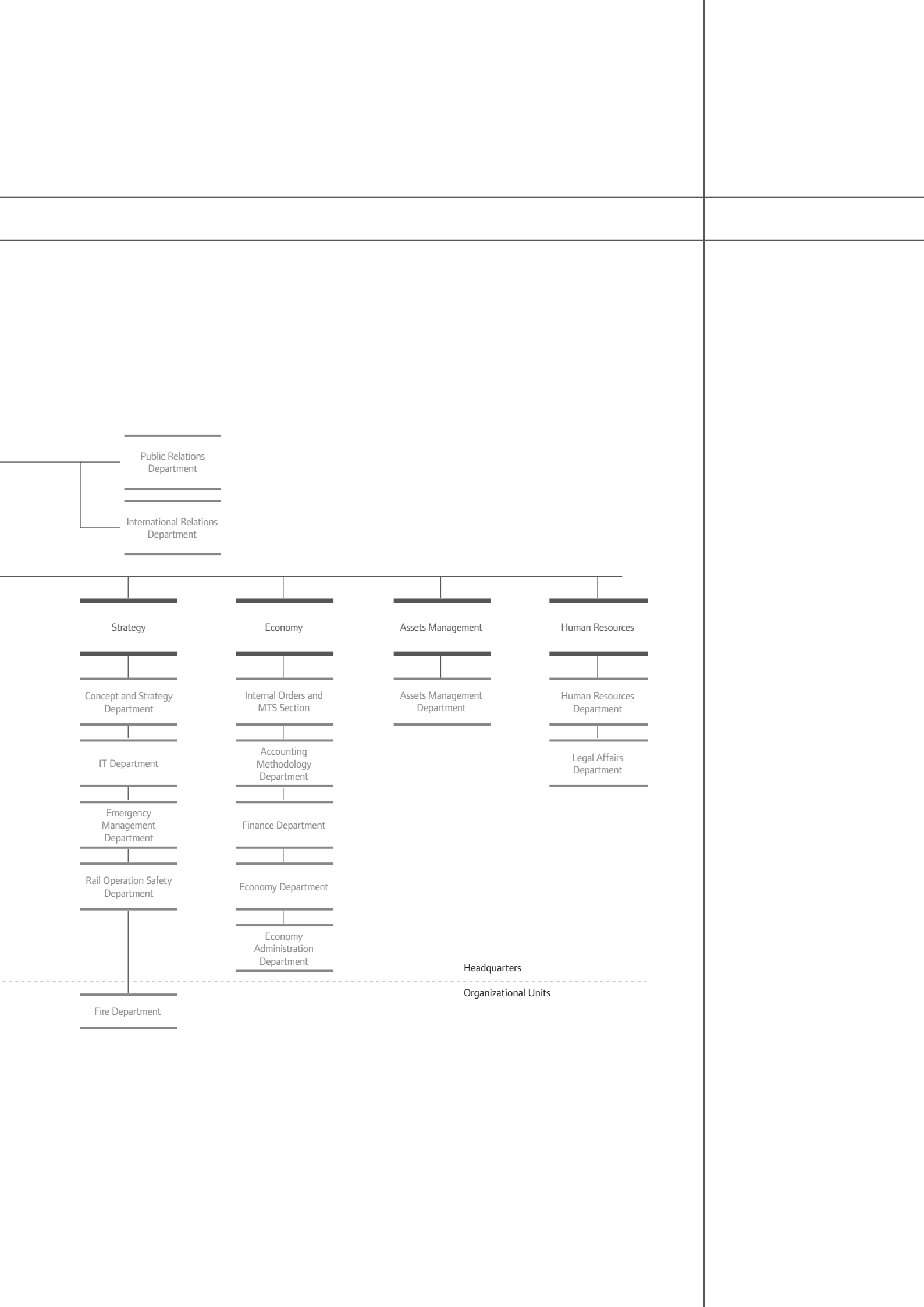
SŽDC's bodies include the Managing Board, the Director General and the Audit Committee. The Director General, Jan Komárek, is SŽDC's statutory body and manages the Company's operations and activities and acts on its behalf. Bohuslav Navrátil was recorded in the Register of Companies as the Statutory Deputy Director General who acts on behalf of the Director General when he is absent.

The members of the Managing Board as of 31 December 2009 were as follows:

Name	Position	Date
Adolf Jílek	Chairman	Since 2 Dec 2008
Ivan Adamec	Member	Since 8 March 2007
Vlastimil Aubrecht	Member	Since 8 March 2007
František Sivera	Member	Since 8 March 2007
Václav Janout	Member	Since 1 Dec 2008
Roman Jurečko	Member	Since 1 Dec 2008
Josef Smýkal	Member	Since 1 Dec 2008

The following chart shows the organisational structure of SŽDC as of 31 December 2009





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

SZDC administers the State's assets pursuant to Act 77/2002 Coll.

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 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 gifts, if any, and assets identified based on physical inventory, which were previously not recorded in the accounting records.

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.

The railway infrastructure, which was not depreciated for accounting purposes in 2003 and 2004 in accordance with Section 26 of Act No. 77/2002 Coll., 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 Act No. 77/2002 Coll.

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 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 2008, 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 2009.

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 Act No. 77/2002 Coll., as amended, 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 2009, 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, payments are valued using the exchange rate of a bank that made the payment.

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 receipt 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 replaced 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

In the year ended 31 December 2009, SŽDC recorded no extraordinary income or expenses arising from transactions that are extraordinary with respect to principal activities of SŽDC, or significant corrections to prior reporting periods.

3.15. Changes in Accounting Policies

No changes were made in accounting policies in the year ended 31 December 2009.

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 Act No. 77/2002 Coll. 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 forgive 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 Act 77/2002 Coll., 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 2009, the Ministry of Finance carried out privatisation of SŽDC's assets in the form of third party sales.

The proceeds collected from the sale are subsequently passed on to SŽDC as they are earmarked for the settlement of SŽDC's payables in accordance with the Transformation Act and are recognised in other operating income upon receipt.

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.

A portion of SŽDC's assets that the Company did not have the right to use in accordance with the Transformation Act were sold to České dráhy a.s. Concurrently, SŽDC purchased the assets that, as part of the transformation process, were listed in the Memorandum of Association of ČD, a.s. and were supposed to be transferred to SŽDC in accordance with the Transformation Act.

4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

4.1. Intangible Fixed Assets

(CZK '000)

	Balance at Acquisition cost	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Software		34,383	80,561	826	114,118	70,010	2,908	181,220
Valuable rights		279	0	279	0	0	0	0
Other		0	2,548	0	2,548	0	0	2,548
Intangible assets under construction		11,302	0	11,302	0	497	497	0
Total		45,964	83,109	12,407	116,666	70,507	3,405	183,768

(CZK '000)

	Accumulated amortisation	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Software		34,080	13,040	826	46,294	35,368	2,909	78,753
Valuable rights		265	14	279	0	0	0	0
Other		0	187	0	187	430	0	617
Total		34,345	13,241	1,105	46,481	35,798	2,909	79,370

(CZK '000)

	Net book value	Balance at 31 Dec 2007	Balance at 31 Dec 2008	Balance at 31 Dec 2009
Software		303	67,824	102,467
Valuable rights		14	0	0
Other		0	2,361	1,931
Intangible assets under construction		11,302	0	0
Total		11,619	70,185	104,398

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

4.2. Tangible Fixed Assets

4.2.1. Analysis of Movements of Assets

(CZK '000)

Acquisition cost	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Land	5,762,921	609,005	41,456	6,330,470	132,550	32,882	6,430,138
Buildings	133,887,807	2,501,356	1,737,406	134,651,757	759,255	1,311,359	134,099,653
Individual movable assets	19,010,283	1,196,002	388,692	19,817,593	549,546	640,856	19,726,283
– Machinery and equipment	18,803,422	835,924	383,075	19,256,271	442,030	634,318	19,063,983
– Vehicles	203,430	353,909	5,508	551,831	107,516	6,279	653,068
– Other	3,431	6,169	109	9,491	0	259	9,232
Tangible assets under construction	3,560,247	23,972,824	22,683,844	4,849,227	25,727,186	23,577,602	6,998,811
Prepayments	195,895	7,700,161	7,887,210	8,846	696,374	644,407	60,813
Valuation difference	0	8,192,259	0	8,192,259	0	0	8,192,259
Total	162,417,153	44,171,607	32,738,608	173,850,152	27,864,911	26,207,106	175,507,957

(CZK '000)

Accumulated depreciation	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008	Additions	Disposals	Balance at 31 Dec 2009
Buildings	68,551,118	3,006,395	1,284,276	70,273,237	3,067,295	969,454	72,371,078
Individual movable assets	9,960,502	1,056,557	314,922	10,702,137	1,121,135	485,962	11,337,310
– Machinery and equipment	9,872,855	1,013,818	309,756	10,576,917	1,038,674	481,571	11,134,020
– Vehicles	84,917	40,786	5,057	120,646	80,581	4,214	197,013
– Other	2,730	1,953	109	4,574	1,880	177	6,277
Valuation difference	0	227,563	0	227,563	546,150	0	773,713
Total	78,511,620	4,290,515	1,599,198	81,202,937	4,734,580	1,455,416	84,482,101

(CZK '000)

Provisions	Balance at 31 Dec 2007	Movement	Balance at 31 Dec 2008	Movement	Balance at 31 Dec 2009
Land	42,523	-5,912	36,611	5,716	42,327
Buildings	165,278	-9,667	155,611	-18,509	137,102
Individual movable assets	54	2,449	2,503	1,238	3,741
– Machinery and equipment	54	2,449	2,503	825	3,328
– Vehicles	0	0	0	413	413
Tangible fixed assets under construction	186,739	-5,945	180,794	0	180,794
Total	394,594	-19,075	375,519	-11,555	363,964

(CZK '000)

Net book value	Balance at 31 Dec 2007	Balance at 31 Dec 2008	Balance at 31 Dec 2009
Land	5,720,398	6,293,859	6,387,811
Buildings	65,171,411	64,222,909	61,591,473
Individual movable assets	9,049,727	9,112,953	8,385,232
– Machinery and equipment	8,930,513	8,676,851	7,926,635
– Vehicles	118,513	431,185	455,642
– Other	701	4,917	2,955
Tangible assets under construction	3,373,508	4,668,433	6,818,017
Prepayments	195,895	8,846	60,813
Valuation difference	0	7,964,696	7,418,546
Total	83,510,939	92,271,696	90,661,892

The increase in tangible fixed assets as compared to 2008 is predominantly due to the increase in tangible fixed assets under construction by CZK 2,149,584 thousand. 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 infrastructure renovation.

The year-on-year increase in fixed assets amounted to CZK 1,724,907 thousand in 2009.

The decrease in provisions predominantly includes the release of provisions against the railway infrastructure with reduced or cancelled operations.

As of 31 December 2009, the balance of tangible fixed assets under construction from the purchase of the business part amounted to CZK 4,635 thousand.

Disposals of tangible fixed assets include the privatisation of the assets assumed from the Ministry of Transport (refer to Note 3.18.), sale of assets and disposals due to the physical liquidation for new investment construction.

4.2.2. Investment Grants

Set out below is an analysis of the total balance of investment grants for the years ended 31 December 2009 and 2008:

(CZK '000)

	1 Jan - 31 Dec 2009	1 Jan - 31 Dec 2008
State Fund of Transport Infrastructure for modernisation, state share, "Doprava" operational fund, EIB	18,236,148	21,100,350
EU funds	672,030	1,752,395
Contributions from municipalities, regions and other entities	52,234	51,814
Total investment grants	18,960,412	22,904,559

Grants from the State Fund of Transport Infrastructure for construction and modernisation include funds from the "Doprava" operational fund which amounted to CZK 7,856,757 thousand and CZK 7,926,419 thousand in the years ended 31 December 2009 and 2008, respectively.

Grants received from the State Fund of Transport Infrastructure in the form of pre-financing amounted to CZK 593,359 thousand and CZK 1,192,143 thousand in the years ended 31 December 2009 and 2008, respectively.

4.2.3. Assets not Reported in the Balance Sheet

The aggregate amount of low value tangible fixed assets not reported in the balance sheet is CZK 654,238 thousand and CZK 651,439 thousand as of 31 December 2009 and 31 December 2008, 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 116,370,745 thousand and CZK 97,630,583 thousand as of 31 December 2009 and 31 December 2008, respectively.

4.2.4. Pledged Assets

SŽDC held no pledged assets as of 31 December 2009.

4.2.5. Assets Held Under Finance Leases

SŽDC holds no assets under finance leases in the year ended 31 December 2009.

4.3. Inventory

(CZK '000)

	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Material in stock – recovered for reinvestments in assets (administered by CD before 30 June 2008)	0	113,055
Material in stock	268,164	117,978
Material in transit	104	3,363
Work in progress	849	1,000
Goods in stock	12	9
Prepayments for inventory	4	112
Provision against inventory	-50	0
Total inventory	269,083	235,517

The change in the material in stock account – recovered for reinvestments in assets – related to the purchase of the business part in 2008 when it has not been necessary to differentiate the relevant inventory and the account since 1 July 2008.

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

4.4. Short-Term Receivables

4.4.1. Trade Receivables

Set out below is the aging analysis of trade receivables:

(CZK '000)

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

(CZK '000)

31 Dec 2008	Before due date	Past due date (in days)					Total past due	Total
		0–90	91–180	181–365	1–2 years	2 years and greater		
Gross	2,363,762	209,434	34,027	19,303	7,866	204,475	475,105	2,838,867
Provision	0	0	-400	-10,956	-7,866	-204,475	-223,697	-223,697
Net	2,363,762	209,434	33,627	8,347	0	0	251,408	2,615,170

The increase in receivables in the year ended 31 December 2009 was predominantly due to the increase in receivables for the sale of electricity to ČD, a.s. (receivables before due dates) and ČD Cargo, a.s. (receivables before due dates and past their due dates). Predominant part of receivables before due dates and past their due dates are receivables from ČD, a.s. and ČD Cargo, a.s. for the use of the railway infrastructure.

The increase in provisions as of 31 December 2009 is due to unsettled receivables for the sale of electricity to ČD Cargo, a.s. As disclosed in Note 8.1., based on the results of a tender SŽDC concluded a contract for the supply of traction electricity for 2009 to 2011 with ČEZ Prodej, s.r.o. in 2008. However, during 2009, the Company's efforts to enter into a contract with certain carriers (ČD Cargo) regarding the price of consumed energy were not successful and hence the receivables arising from the supply of traction electricity were paid by this carrier at a lower unit price than actually billed. SŽDC therefore recognised aggregate provisions of CZK 286 million in respect of the receivables from ČD Cargo as of 31 December 2009.

Upon transformation in 2003, SŽDC acquired receivables from the former Yugoslav Railways. In the same year, these 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. The receivable from the assignee amounts to CZK 114,992 thousand as of 31 December 2009 and is fully provided for.

The balance of receivables arising from the sale of assets after discharge of payables, including receivables transferred for legal recovery, receivables under the bankruptcy proceedings and receivables arising from billing of services relating to the use of apartments and non-residential premises at the end of 2009 amounts to CZK 45,725 thousand.

4.4.2. Tax Receivables

As of 31 December 2009 and 2008, tax receivables consist of a VAT receivable of CZK 1,537,236 thousand and CZK 1,447,860 thousand, respectively.

4.4.3. Other Receivables

The structure of other receivables:

(CZK '000)

Type of receivable	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Receivables assumed from ČD, s.o.	14,594	18,510
Of which:		
– Rental proceeds from housing	0	17
– Damage on the assets of ČD, s.o.	11,142	12,223
– Other	3,452	6,270
Receivables arising from damages	44,963	42,426
Receivables from the sale of the business part	22,390	22,674
Reserve allocation to the cultural and social needs fund	69,368	35,862
Receivables from damages for Březno-Chomutov rail relocation (refer to Note 7.3.)	0	29,247
Other	544	908
Total other receivables	151,859	149,627
Provisions	-65,156	-16,997
Total other receivables, net	86,703	132,630

The receivables assumed from ČD, s.o. were completely reclassified to trade receivables. The increase in receivables arising from damages and allocation to the cultural and social needs fund is due to the purchase of the business part and/or the relating increase in the number of employees.

4.5. Estimated Receivables

(CZK '000)

	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Anticipated grant from EU funds (refer to Note 3.11.)	1,438,362	1,437,158
Estimated receivable arising from the billing of the use of the railway infrastructure in passenger transportation	0	2,171
Estimated receivable arising from the billing of the use of the railway infrastructure in freight transportation	0	1,785
Claimed compensation for damage arising from the mandate contract and ČD, a.s.	21,104	21,104
Estimated receivable for the rail relocation on the Březno-Chomutov track (refer to Note 7.3.)	0	26,276
Estimated receivable from the rebilling of the expenses for the administration of residential premises the sale of which did not become legally effective	4,786	3,485
Estimated receivable for compensation for the fall of the Studénka bridge	11,124	0
Unbilled consumption of electricity	1,042	1,421
Anticipated grant from EU funds (refer to Note 3.11.)	3,201	2,131
Other items	26,189	12,780
Total estimated receivables	1,505,808	1,508,311
Provision	-21,104	-21,104
Total net estimated receivables	1,484,704	1,487,207

The increase in other items is due to the recognition of estimated receivables from services related to the lease.

4.6. Derivative Financial Instruments

(CZK '000)

Derivatives held for trading	31 Dec 2009	31 Dec 2008
	Fair value	Fair value
Interest rate swaps	-73,250	-77,243
Total	-73,250	-77,243

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, 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 2009	Balance at 31 Dec 2008
Cash on hand and cash in transit	1,644	1,428
Stamps and vouchers	2,503	3,219
Cash at bank	1,203,953	3,251,398
Total financial assets	1,208,100	3,256,045

The balance of bank accounts in the table has to be corrected – decreased by the used overdraft limit of the cash pool account of CZK 678,368 thousand (refer to Note 4.13.3.). Reflecting this impact, the balance of the Bank's bank accounts was CZK 525,585 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).

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 2009 and 2008.

Due to the specification of ČD's transformation, land worth CZK 3,923 thousand and CZK 30,541 thousand in the years ended 31 December 2009 and 2008, respectively, was included and recognised in SŽDC's assets. Concurrently, land worth CZK 119 thousand and CZK 3,352 thousand in the years ended 31 December 2009 and 2008, respectively, was removed from SŽDC's accounting records. These include plots of land divided by transformation plot maps.

As part of the specification of ČD's transformation, buildings at the net book value of CZK 136 thousand were included in the assets of the Company in 2009.

The grant for purchase of the business part from ČD, a.s. as of 1 July 2008 resulted in the increase in the equity of CZK 11,852,101 thousand.

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. Reserves

(CZK '000)

	Balance at 31 Dec 2008	Charge	Use	Balance at 31 Dec 2009
Reserve for legal disputes	54,687	623	2,788	52,522
Reserve for compensation for job-related accidents and occupational diseases	115,343	0	1,422	113,921
Reserve for extra pension payments	71,410	0	10,065	61,345
Reserve for costs of damages – ČD Cargo, a.s.	59,242	36,625	0	95,867
Total reserves	300,682	37,248	14,275	323,655

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

A 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.

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 2009, the fifth payment of interest in the aggregate amount of CZK 322 million was made to the holders of bonds.

4.11.2. Long-Term Trade Payables

(CZK '000)

Creditor	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Retentions	1,233,900	808,823
Bid-bonds, security deposits, sureties	6,000	6,000
Total	1,239,900	814,823

The increase in retentions is primarily due to increased investment activities on the railway infrastructure (the increase in the tangible assets under construction).

4.11.3. Other Long-Term Payables

(CZK '000)

Creditor	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Czech Ministry of Finance – repayment of loan principal and interest balances under the Transformation Act after the remission	0	453,229
Czech Ministry of Finance – payment under state guarantee for loan interest, after the remission	534,026	1,454,451
Czech Ministry of Finance – payment under state guarantee for loan principal, after the remission	1,620,681	4,731,098
Total	2,154,707	6,638,778

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 Act No. 77/2002). 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 by CZK 6,369 million in 2008. In 2009, CZK 6,357 million was 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	91 180	181 365	1 2 years	2 years and greater		
2009	5,832,026	218,372	3,809	1,952	115	0	224,248	6,056,274
2008	4,392,561	90,755	2,624	288	352	0	94,019	4,486,580

The balance of payables before their due dates as of 31 December 2009 predominantly includes the payables for investment supplies to construction developers and purchase of electricity from ČEZ prodeje, s.r.o.

The increase in payables before their due dates is predominantly due to the increased investment construction in the last months of 2009 and payables for the purchase of electricity and maintenance and servicing of data and monitoring systems and networks repayable in 2010.

The increase in payables past their due dates includes payables to Skanska, a.s. for construction – Optimising of the Zbiroh – Rokycany railway track that will be financed by the State Fund of Transport Infrastructure (“SFTI”) in 2010.

4.12.2. Social Security Payables

As of 31 December 2009, the Company carried only social security payables before their due dates.

4.12.3. Tax Payables and Subsidies

(CZK ‘000)

	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Undrawn investment subsidies from the SFTI	154,775	13,288
SFTI – FS recoverable investment subsidy	1,342,170	1,280,575
SFTI TEN T recoverable subsidy	92,314	150,122
SFTI OPI recoverable subsidy	0	11,351
TEN T investment subsidy	387,860	375,607
Investment contributions of municipalities, regions and other entities	16,499	48,350
Income tax withheld on behalf of employees	32,874	33,741
Other taxes	806	150
Other grants to sales	43	73
Total tax payables and subsidies	2,027,341	1,913,257

The bulk of the balance of the investment subsidy from 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 1,434,484 thousand and CZK 1,442,048 thousand as of 31 December 2009 and 2008, respectively.

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

4.12.4. Short-Term Received Prepayments

Short-term received prepayments amount to CZK 90,771 thousand and CZK 65,399 thousand as of 31 December 2009 and 2008, 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.

4.12.5. Estimated Payables

(CZK ‘000)

	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Unbilled non-investment supplies	495,618	629,733
Unbilled investment supplies	145	444
Estimated payable for interest expenses in respect of corridors	42,914	58,318
Estimated payable for the payment to the state budget for non-compliance with the obligatory number of disabled people	15,966	7,185
Other	5,346	1,697
Total estimated payables	559,989	697,377

Unbilled non-investment supplies include the estimated payable for the provision of the railway infrastructure in relation to the operations management of CZK 351,318 thousand and the internal consumption of electricity of CZK 40,550 thousand.

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 2008	Drawing in 1-12/2009	Repayments in 1-12/2009	Foreign exchange rate differences	Balance at 31 Dec 2009
The 1st Corridor						
KfW Frankfurt	EUR	240,959	0	33,571	4,418	202,970
EIB Luxembourg	EUR	1,336,694	0	219,366	22,650	1,094,678
Japan. EXIM Bank	JPY	1,029,921	0	160,557	70,325	799,039
EIB Luxembourg	EUR	1,155,003	0	132,873	20,607	1,001,523
ČS, a.s.	CZK	671,600	0	223,600	0	448,000
KB, a.s.	CZK	1,043,000	0	174,000	0	869,000
KfW Frankfurt	EUR	825,853	0	80,587	14,832	730,434
The 2nd Corridor						
EIB Luxembourg	EUR	2,872,534	0	352,354	50,113	2,470,067
EIB Luxembourg	EUR	3,693,257	0	301,674	64,554	3,327,029
KfW Frankfurt	EUR	2,340,745	0	269,824	41,220	2,029,701
Subtotal		15,209,566	0	1,948,406	288,719	12,972,441
Rationalisation						
ČS, a.s.	CZK	789,944	634,562	150,000	0	1,274,506
Subtotal		789,944	634,562	150,000	0	1,274,506
Total		15,999,510	634,562	2,098,406	288,719	14,246,947

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 2009	Due in 2010	Due in the following years
Long-term loans	2,098,406	2,001,500	12,245,447
Total	2,098,406	2,001,500	12,245,447

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 1,948,406 thousand in the year ended 31 December 2009, of which CZK 327,724 thousand was paid from own funds.

The debt service arising from the non-guaranteed loan provided by Česká spořitelna, a.s., was repaid 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 Loans

(CZK '000)

	31 Dec 2009	31 Dec 2008
Overdraft	678,368	0
Short-term loans	678,368	0

At the end of 2009, 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 2009	Balance at 31 Dec 2008
Tangible and intangible fixed assets	-3,550,863	-3,388,056
Provisions against assets under construction	69,153	75,104
Trade receivables	17,525	13,122
Reserves	61,495	60,136
Tax losses carried forward	0	1,247,270
Total deferred tax (+asset/-liability)	-3,402,690	-1,992,424

The deferred tax was calculated using the known tax rate.

Given the uncertainty regarding the possibility to utilise the tax accumulated tax loss against taxable profit, the Company did not recognise and account for a deferred tax asset from the tax loss in the year ended 31 December 2009 on the grounds of prudence.

4.15. Accrued Expenses and Deferred Income

(CZK '000)

	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Deferred income – payments from Severočeské doly for damages	1,012	3,436
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-Telematika, a.s.	25,641	53,417
Rental collected upfront	10,163	12,827
Other	747	1,225
Total accrued expenses and deferred income	304,867	338,209

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

(CZK '000)

Item	Balance at 31 Dec 2009	Balance at 31 Dec 2008
Income from the use of the railway infrastructure by ČD, a.s. – freight transport	57,102	71,853
Income from the use of the railway infrastructure by ČD, a.s. – passenger transport	1,367,418	1,655,843
Income from the use of the railway infrastructure by ČD Cargo, a.s. – freight transport	2,542,408	4,142,140
Income from the use of the railway infrastructure by external carriers – freight transport	318,433	343,283
Income from the use of the railway infrastructure by external carriers – passenger transport	3,883	4,650
Income from the operation of the railway infrastructure	67,312	75,665
Rental income	174,620	151,108
Income from other external services	756,564	441,926
Income from the sales of electricity	3,401,567	3,000,708
Income from foreign carriers for provided services (extraordinary shipments, etc.)	2,472	1,367
Total income from the sale of products and services	8,691,779	9,888,543

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

The year-on-year decrease in the income from the use of the railway infrastructure by carriers in 2009 was due to the lower price and lower demand of carriers, specifically ČD Cargo, a.s.

The amount of sales from other external services is impacted by the purchase of the part of business of ČD, a.s. as of 1 July 2008. The amount for 2008 included sales only for the second half of the year (e.g. sales billed to ČD, a.s. and ČD Cargo, a.s. for the services of the fire brigade of SŽDC amounted to CZK 75 million in the second half of 2008 and CZK 130 million for the year ended 31 December 2009. Sales from the use of communication technologies of the Technical Centre of SŽDC amounted to CZK 103 million in the second half of 2008 and CZK 187 million for the year ended 31 December 2009).

4.17. Services

(CZK '000)

Item	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Costs of managing the operation of the railway infrastructure by ČD, a.s.	5,320,200	5,534,923
Costs of maintaining the operability of the railway infrastructure by ČD, a.s.	0	3,151,614
Costs of construction repairs and maintenance	2,292,617	1,378,453
Costs of repairing apartments	7,766	13,275
Costs of audit, legal and economic services	28,930	23,712
Of which:		
– costs of the statutory audit of the financial statements	2,300	2,300
– costs of other assurance services	270	4,100
– costs of other non-audit services by the statutory auditor	10,087	2,335
Costs of cooperation in allocating the capacity of the railway infrastructure	361	2,841
Other	3,971,268	2,261,418
Of which:		
– repairs and maintenance	1,888,440	1,488,933
– lease, software under CZK 60 thousand, etc.	2,082,828	772,485
Total	11,621,142	12,366,236

The increase in costs relates to the purchase of the business part as of 1 July 2008. The increase in the number of employees resulted in the increase in travel costs, training, connections, cleaning, etc.

4.18. Staff Costs

(CZK '000)

2009	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs in 2009	Total staff costs in 2008
Additional social programme	41,590	0	0	41,590	12,351
Current costs	3,254,122	1,096,174	232,501	4,582,797	2,462,379
Other	82,196	0	0	82,196	24,102
Total	3,377,908	1,096,174	232,501	4,706,583	2,498,832

Current staff costs represent costs of SŽDC's employees for the year ended 31 December 2009. 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, 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 2009	Year ended 31 Dec 2008
Change in reserves	22,973	47,483
Change in provisions against receivables	337,052	5,565
Change in provisions against tangible fixed assets	-11,555	-19,075
Change in inventory	50	0
Total change in reserves and provisions relating to operating activities	348,520	33,973

The principal reason for the change in the balance of provisions against receivables in 2009 is the recognition of provisions against unsettled receivables for the purchase of traction electricity by ČD Cargo, a.s. in the amount of CZK 286 million, refer to Note 4.4.1.

4.20. Other Operating Income

(CZK '000)

Item	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Subsidies from the State Fund of Transport Infrastructure ("SFTI") for repairs and maintenance of the railway infrastructure	8,005,000	7,664,886
Subsidies from the SFTI for repairs and maintenance after floods	712,074	0
Non-investment subsidies from the state budget	1,460,000	200,000
Non-investment subsidies from SFTI – special purpose	11,873	8,806
Non-investment subsidies – OPD programme	7,285	5,547
Other subsidies	1,212	905
Subsidies from the state budget for the additional social programme according to the governmental resolution	41,590	12,351
Remission of debts	6,357,073	6,369,062
Proceeds of recovered material	220,737	392,642
Proceeds from privatisation	4,287	741,620
Received contractual penalties and default interest	25,826	7,995
Sale of rights for the operation of the transmission network	27,776	30,089
Compensation of the mining damage from Severočeské doly	4,322	6,849
Claims for compensation for deficits and damage	78,820	85,124
Sundry operating income	71,297	40,289
Total other operating income	17,029,172	15,566,165

The increase in non-investment subsidies was impacted by the resolution of the Ministry of Transport to provide a contribution for the railway infrastructure in the year ended 31 December 2009 in the aggregate amount CZK 1,460 million.

4.21. Other Operating Expenses

(CZK '000)

Item	Year ended 31 Dec 2009	Year ended 31 Dec 2008
Non-investment and investment default interest	95	56
Fines and penalties	1,203	1,522
Write-offs of receivables	7,509	29,146
Write-off of thwarted investments	40	1,571
Costs of court proceedings	385	1,971
Rents paid	19,862	21,246
Costs arising from the non-employing of disabled people	8,781	7,215
Insurance of assets and liability insurance	26,765	15,806
Membership contributions	4,553	4,330
Sundry operating expenses	12,866	7,823
Total other operating expenses	82,059	90,686

The decrease in costs for the write-off of receivables in 2009 relates to the decrease in the balance of receivables assumed from ČD, s.o. as of 1 January 2003 which was also reflected in the amount of costs of the legal proceedings.

The increase in the costs of insurance is due to the purchase of the business part as of 1 July 2008 which is reflected in the increase of the statutory insurance of employees and vehicles.

Sundry operating expenses predominantly include costs of the damage.

4.22. Interest Income

The interest income in the years ended 31 December 2009 and 2008 amounted to CZK 36,996 thousand and CZK 124,208 thousand, respectively. The significant year-on-year decrease in interest income is due to low available balances on bank accounts and low interest rate during 2009.

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 2009 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 related current staff costs for the years ended 31 December 2009 and 2008:

(CZK '000)

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

(CZK '000)

	Average headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
2008					
Staff	5,565	1,737,230	600,180	112,058	2,449,468
Managers	34	38,594	10,766	4	49,364
Total	5,599	1,775,824	610,946	112,062	2,498,832

As of 1 January 2009, the Company had 10,438 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 to optimise the number of employees which resulted in the decrease in staff costs. As of 31 December 2009, the Company had 9,929 employees, ie a year-on-year decrease of 616.

5.2. Loans, Borrowings, and Other Benefits Provided

In 2008 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

As of 1 July 2007, the Company received the key deliverables from the completed across-the-board environmental audit of the assets owned by the state with the right of management for the Company, which was organised by ČD, a.s. before that date. Further analyses indicate that the level of pollution is lower than originally estimated. 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 potentially 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.). In addition, it is not possible to determine the liabilities related to the prevention of potential future damage. The solution for the legacy noise burden is also being dealt with. With respect to individual investments of the Company, the environmental protection is an integral part of the preparatory project documentation.

Since 2006, the costs of environmental protection, i.e. the removal of noise and vibration burden, have been reported to the Czech Statistical Office. These costs were calculated at approximately CZK 539 million for the year ended 31 December 2008. In the year ended 31 December 2009, these costs amounted to CZK 522 million (only anti-noise measures in investments in corridors). 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 when they are not part of the cost of the new investment construction in which the environmental protection forms an integral part of the preparatory project documentation.

Legal Disputes

In 2004, the Company recognised a reserve for the legal dispute with TRANSKOREKTA relating to the damage caused by the flood in 1997 in the amount of CZK 129 million corresponding to the then estimated share of the Company in the potential negative result of the dispute.

In 2005, the reserve was reversed due to the development in the legal dispute. At the end of 2006, the court ruled that the Company is not the entity responsible for the damage. For this reason, the charge against the Company was dismissed. However, the plaintiff appealed against the ruling within the statutory period and the ruling of the court of the first instance was revoked in the appellate proceedings and the case was returned for a new hearing and ruling. The plaintiff in this dispute seeks damages of CZK 8 billion from all defendants.

Pursuant to the resolution of the Regional Court in Ostrava dated 1 December 2009, the legal dispute for damages against the Company was discontinued.

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 2009	Construction work undertaken to date	Remaining estimated costs	Total estimated costs
1st Corridor	40,759,568	0	40,759,568
2nd Corridor	39,016,291	0	39,016,291
3rd Corridor	21,050,887	54,579,974	75,630,861
4th Corridor	12,099,451	29,825,933	41,925,384
Total	112,926,197	84,405,907	197,332,104

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 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, Act 77/2002 Coll., 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.

On 2 January 2003, SŽDC entered into a three-year agreement with České dráhy, a.s. for 2003 to 2005 on securing the operability of the railway infrastructure, and their modernisation and development in the public interest. In 2005, a new contract for the period from 2006 to 2008 was entered into.

Under the amendment to Act No. 77/2002 Coll., SŽDC assumed the activities of the railway infrastructure operator on 1 July 2008. For this reason, the validity of the three-year contract 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)

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
Total	5,320,200	3,255,983

(CZK '000)

2008	Expenses	Income
ČD, a.s.		
Costs of managing the operation of the railway infrastructure	5,534,923	0
Costs of maintaining the operability of the railway infrastructure	3,151,614	0
Costs of allocation of railway infrastructure capacities	2,712	0
Income from the use of the railway infrastructure - passenger transport	0	1,655,843
Income from the use of the railway infrastructure - freight transport	0	71,853
Income from the allocated railway infrastructure capacity	0	50,601
Income from the electricity - SŽE	0	1,406,580
Total	8,689,249	3,184,877

As of 31 December 2009, SŽDC recorded amounts due from and to České dráhy, a.s. at the net amount of CZK 1,198,775 thousand. This amount is reported as a component of trade receivables in the balance sheet. In addition, SŽDC recorded a payable to ČD, a.s. arising from an estimated payable of CZK 423,106 thousand. The balance of these items represents the trade receivables of SŽDC of CZK 775,669 thousand.

(CZK '000)

Expenses and income of SŽDC in relation to ČD Cargo, a.s.	2009	2008
Income from the use of the railway infrastructure – freight transportation	2,542,408	4,142,140
Income from the allocated railway infrastructure capacity	15,136	18,721
Income from the electricity – SŽE	1,367,264	1,394,975
Total	3,924,808	5,555,836

As of 31 December 2009, SŽDC records amounts due from and to ČD Cargo, a.s., the aggregate net book value represents a receivable of SŽDC amounting to CZK 1,311,695 thousand. This receivable is reported as a component of trade receivables on the face of the balance sheet.

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 2009, the Company privatised five residential buildings in the aggregate amount of CZK 9,791 thousand. The income from the privatisation which was received from the Ministry of Finance in 2009 was recognised in operating income and amounted to CZK 4,287 thousand. The net book value of the disposed of privatised assets of residential buildings amounted to CZK 4,027 thousand in the year ended 31 December 2009.

The receivable from the Czech Ministry of Finance for unsettled completed privatisation projects of residential buildings for 2009 and 2008 amounted to CZK 3,621 thousand and CZK 1,446 thousand, respectively.

In 2009, five privatisation projects were effected in respect of assets other than residential buildings in the aggregate amount of CZK 1,757 thousand.

The net book value of disposed of other privatised assets in 2009 is CZK 7,122 thousand, the projects were completed without the sale of receivables.

The receivable from the Czech Ministry of Finance for unsettled completed privatisation projects of other assets amounted to CZK 1,757 thousand and CZK 6,468 thousand in the year ended 31 December 2009 and 2008, respectively.

As of 31 December 2009, SŽDC records assets intended for the settlement of payables assumed from ČD, s.o. listed in the Appendix to the Transformation Act 77/2002 Coll. in the aggregate net book value of CZK 789,362 thousand. As of 31 December 2008, the net book value of these assets amounted to CZK 803,876 thousand.

7.6. Sale of Assets

7.6.1. Sale of Redundant Assets

Assets listed in the Appendix to the Transformation Act that were not registered for privatisation are dealt with in accordance with the proposal for dealing with assets, the individual items of which were approved by the Managing Board of SŽDC, s.o. and discussed by the Czech Ministry of Transportation. The income from one sale of these assets of CZK 13,300 thousand in the year ended 31 December 2009 was recognised in operating income. The net book value of disposed of other assets in the year ended 31 December 2009 amounted to CZK 5,424 thousand, the projects were completed without the sale of receivables.

In the year ended 31 December 2008, three items of other assets with the agreed purchase price of CZK 8,176 thousand were directly sold. The sale of the redundant railway infrastructure assets in 2008 involved 103 transactions of which the agreed purchase price was CZK 26,923 thousand.

7.6.2. Sale of Residential Buildings

Residential buildings listed in the Appendix to the Transformation Act that could not have been privatised due to the non-formation of housing associations were sold directly. In 2009, the aggregate income from the direct sale in a public tender of three residential buildings amounted to CZK 666 thousand. The net book value of sold residential buildings was CZK 231 thousand in the year ended 31 December 2009, the projects were completed without the sale of receivables.

8. POST BALANCE SHEET EVENTS

8.1. Traction Electricity Delivery

Pursuant to the effective legislation and results of the tender, SŽDC concluded contracts for the supplies of traction electricity for all carriers and consumption of all other facilities of SŽDC with effect from 1 January 2009. In accordance with the result of the tender, the contracts were concluded with ČEZ Prodej, s.r.o. Based on the change in the legislation (amendment to the Energy Act) and the resulting requirements of the most significant carriers (České dráhy, a.s., ČD Cargo, a.s.) for determining conditions for the purchase of electricity, SŽDC specified the volume of electricity that will be purchased for its needs in 2010 in terms of the applicable contract. ČEZ Prodej, s.r.o. did not agree with the procedure referred to above and initiated negotiations with SŽDC regarding the difference between the originally anticipated and the likely substitute sale which may, in its opinion, amount up to CZK 800 million. Management of SŽDC has rejected this requirement as it believes that SŽDC did not breach the contract and continues to proceed fully in compliance with the concluded contract. The ultimate outcome of the matter cannot presently be determined, and no reserve or liability that may result have been recognised in the financial statements.

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.

XVI. COMPLEMENTARY DATA

PURSUANT TO THE PROVISIONS OF § 118 OF CAPITAL MARKET ACT NO. 256/2004 COLL., AS AMENDED, WE SUPPLEMENT DATA WHICH ARE NOT INCLUDED IN OTHER CHAPTERS OF THIS ANNUAL REPORT:

INFORMATION ON PRINCIPLES AND PROCEDURES OF THE INTERNAL AUDIT AND RULES OF SŽDC'S APPROACH TO RISKS

The principles and procedures of the internal audit and principles for risks control are integrated into the system of SŽDC's control acts consisting of main components such as the statute, codes, economic rules, directives and other internal regulations. The directives of the Statute of SŽDC's Internal Audit and Control, the Audit Service Manual, SŽDC's Assets and Obligations Inventory, SŽDC's Internal Control System – Financial Auditing and Vouchers Circulation, play a key role in this field. The SŽDC's Internal Control System complies with the requirements of Act No. 320/2001 Coll., on the Financial Audit.

The control of the company processes by the management in individual phases is based on continuous monitoring and controlling risks which result from those processes.

Chief executives and authorized personnel exercise preliminary, continuous as well as subsequent control of economic operations within the SŽDC's activities. The control focuses on the observance of legal and internal regulations, the economy of operations and on providing the protection of means against risks.

An independent body of the internal control system is the Internal Audit Department that carries out its function in line with International Standards for the Professional Practice of Internal Auditing.

The planned internal audits focus on the annual risks evaluation by the management and also include a follow-up check related to the observance of adopted measures to eliminate the previously detected flaws.

DESCRIPTION OF DECISION-MAKING PROCESSES AND THE STRUCTURE OF SŽDC'S BODIES

Statutory Body

The statutory body of SŽDC is the Director General. He makes decisions in accordance with the Organization's Statute, generally accepted legal regulations and other related internal standards of the organization. The Statute is adopted by the Managing Board. In absence, the statutory body is represented by its appointed deputy. Some powers of the statutory body are in line with generally accepted regulations, SŽDC Organization Code and Signing Rules delegated to other SŽDC's staff. The delegation of such powers, however, comes exclusively under the competence of the organization's statutory body.

Managing Board

It makes decisions concerning issues – which are precisely defined by valid legal regulations and by the Organization's Statute – based on the majority of votes of all members according to the Rules of Procedure of the Managing Board. The Managing Board consists of 7 members appointed by the Government on the motion of the Minister of Transport, whereas the Government designates a chairman out of the Managing Board members, who controls the activity of the Managing Board.

Audit Committee

In December 2009, the Audit Committee was established pursuant to Act No. 93/2009 Coll., on Auditors, and its principal operations focus on monitoring the procedure of drawing up the financial statement, on assessing the efficiency of the internal control, internal audit and risks control, monitoring the process of the obligatory audit, recommending an auditor for the obligatory audit and on evaluating his independence. With regard to the date of its establishment, the Audit Committee in its initial phase focused on monitoring the drawing up of the financial statement as of 31.12.2009 and on the process of its audit. The principles of the Committee's decision-making are laid down in the Organization's Statute.

The list of the names of the relevant bodies representing the SŽDC's administration is provided in the chapter "Management of the Organization".

The Managing Board members' official address is the organization's address, i.e. Správa železniční dopravní cesty, státní organizace, Dlážděná 1003/7, 110 00 Praha 1, Nové Město.

According to the data provided by senior executives (Statutory Body and Managing Board), there is no conflict of interest between the senior executives' function they perform at SŽDC and activities performed outside SŽDC. Senior executives' declarations signed in their own hands related to the issue of conflict of interest are kept safe on the premises of the organization.

FINANCIAL AND NON-FINANCIAL INCOME OF SENIOR EXECUTIVES FOR 2009

Financial and non-financial income of the statutory body	
Financial income (CZK '000)	5,476
Non-financial income (CZK '000)	0
Number of persons	2
and non-financial income of the Managing Board members	
Financial income (CZK '000)	1,170
Non-financial income (CZK '000)	0
Number of persons	7

PRINCIPLES OF REMUNERATION OF SENIOR EXECUTIVES

In line with the Organization's Statute, the statutory body is the Director General who has a designated deputy acting on behalf of the organization. During 2009, the remuneration of the Director General was specified in the managerial contract, the conditions of which are approved and evaluated by the Managing Board. The managerial contract specifies the guaranteed wage, which is payable every month, and the non-guaranteed wage, which can be paid on the basis of set indicators evaluated for the calendar year. In 2009, the remuneration conditions were laid down with regard to the fulfilment of the main tasks of the organization, to the level of fulfilling tasks defined by the Managing Board and to a complex evaluation of the managerial level of the Director General. The remuneration of the Deputy Director General is specified in an individual wage agreement in line with the remuneration directive; the amount of the wage in the agreement is specified and the evaluation is approved by the Director General. 80% of the total contracted wage is guaranteed and paid monthly; the remaining 20% is paid out based on a complex evaluation in the respective calendar month. The complex evaluation of the Deputy Director General refers to the level of fulfilling the tasks laid down by the Director General and the overall activity of that particular section.

The remuneration of the Managing Board members is in line with the valid legislation only if they do not turn out to be the ones who are not allowed to accept any remuneration (pursuant to Act No. 159/2006 Coll., on the Conflict of Interest as amended), and at the same time they have a fixed monthly payment set in their function-related contract. Out of seven Managing Board members, three members of the Managing Board had this clause in their function-related contract during 2009.

During 2009, members of the organization's bodies did not have any possibility to draw on any employees' amenities or other benefits which were not universally provided to all of the personnel of the organization.

INFORMATION ON THE CODES OF THE COMPANY'S MANAGEMENT AND ADMINISTRATION

SŽDC consistently observes all legal regulations concerning the obligations of the bond issuer in relation to involved parties, in particular the Capital Market Act, Accountancy Act, Commercial Code and Auditors Act. In relation to its staff, SŽDC always proceeds in line with the labour law, closely cooperates with trade unions and provides them with requested information.

SŽDC did not officially adopt the principles of some of the codes of the company's management and administration which are accepted and applied by business organizations in the Czech Republic, the European Union or OECD countries. The reason is its specific legal status (state organization) which, due to its nature, excludes any compatibility with a number of provisions of such codes.

STATE, COURT AND ARBITRATION PROCEDURES

SŽDC annually carries out a detailed survey of relevant legal actions. Based on an expert legal assessment of losses from lawsuits and in relation to the accounting principle of prudence, SŽDC sets up a reserve for potential lawsuits (see the annex to the financial statements, note 3.7. and 4.10.).

The impact of state, court and arbitration procedures on the financial situation, i.e. SŽDC profitability (except for the set-up reserve and the information provided in the annex to the financial statements) is of no significance.

AUDITORS' FEES

Auditors' fees (CZK '000)	
Fees for the obligatory audit of the financial statements	2,300
Fees for other certifying services	270
Fees for other non-auditorial services of the statutory auditor	10,087

The fees for auditorial service are composed of the payments for the obligatory audit of the 2008 financial statements and of payments for other certifying services. Fees for other non-auditorial services of the statutory auditor include consultations related to accounting, tax and legal issues, to the assessment of economic efficiency and the implementation of the system of monitoring and evaluating costs of lines and regions, concerning the allocation of expenses and revenues for respective lines according to the timetable and relevant circuits.

OTHER DATA REQUESTED BY § 118 OF CAPITAL MARKET ACT NO. 256/2004 COLL., AS AMENDED, ARE IRRELEVANT FOR SŽDC. THEREFORE THEY ARE NOT PRESENTED OR COMMENTED IN ANY WAY.

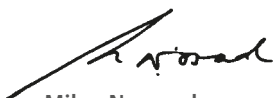
THE PERSON RESPONSIBLE FOR THE ANNUAL REPORT

Milan Novosad, Director of Accounting Methodology Department

Statutory declaration of a person responsible for the Annual Report

I declare that the information contained in the SŽDC 2009 Annual Report is true. No other essential circumstances that could have an impact on the precise and correct evaluation of SŽDC as the bond issuer, and of the issued bonds were omitted or distorted.

Prague, 30.4.2010

A handwritten signature in black ink, appearing to read 'M. Novosad', is written over a horizontal line.

Milan Novosad

Name of the company: Správa železniční dopravní cesty
Legal status: state organization
Establisher: Czech Republic (establisher's function entrusted
to the Czech Ministry of Transport)
Date of incorporation: 1.1.2003
Company ID: 70994234
Registration court: Prague
Entry details: Section A, File 48384
Registered office: Prague 1, Nové Město, Dlážděná 1003/7, Postal Code 110 00
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