



Správa železniční dopravní cesty

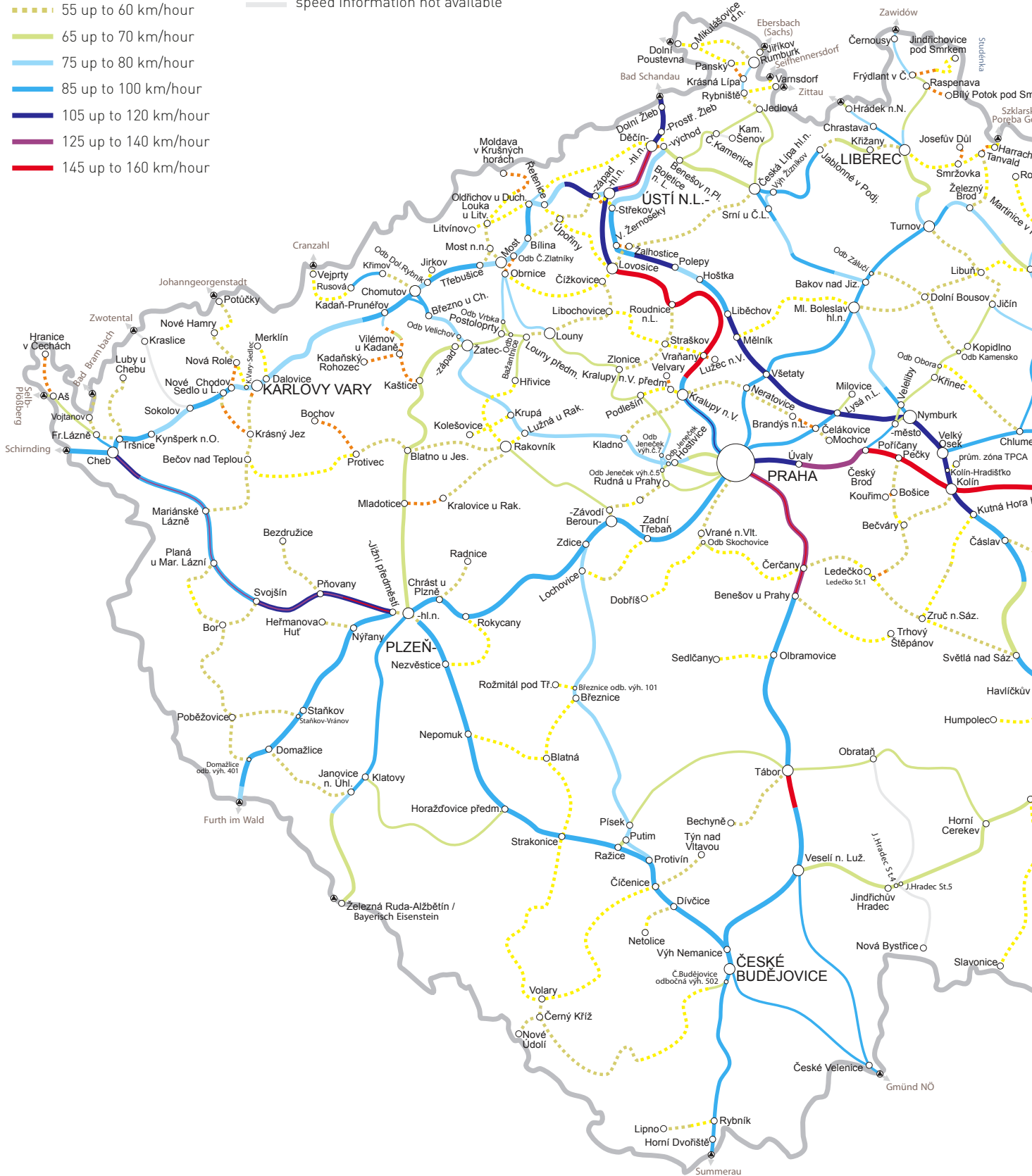


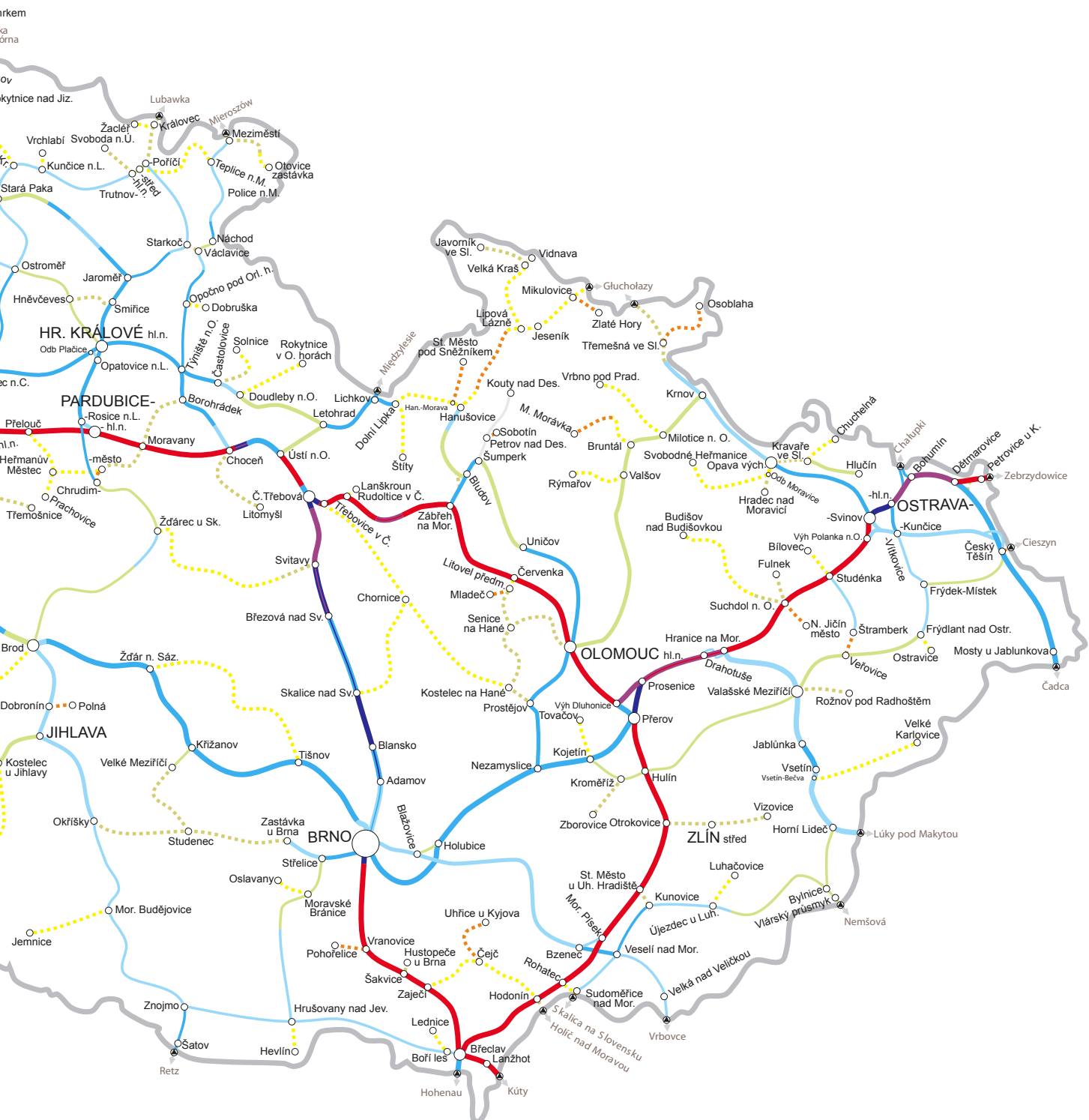
2011 Annual Report

Our people excel at what they do

Top line speed

- up to 40 km/hour
 - 45 up to 50 km/hour
 - 55 up to 60 km/hour
 - 65 up to 70 km/hour
 - 75 up to 80 km/hour
 - 85 up to 100 km/hour
 - 105 up to 120 km/hour
 - 125 up to 140 km/hour
 - 145 up to 160 km/hour
- Inner colour: speed for trains with tilting boxes; highlighted only if different
— speed information not available





Basic characteristics of SŽDC's railway network

| Indicator | Unit of Measurement | Amount |
|---|---------------------|---------|
| Total length of tracks | km | 9,470 |
| Length of electrified tracks | km | 3,208 |
| Length of standard-gauge tracks | km | 9,447 |
| Length of narrow-gauge tracks | km | 23 |
| Length of single-track lines | km | 7,557 |
| Length of double and multiple-track lines | km | 1,913 |
| Total construction length of tracks | km | 15,552 |
| Number of switch units | s.u. | 24,544 |
| Bridges | quantity | 6,735 |
| Tunnels | quantity | 158 |
| Total length of bridges | m | 150,945 |
| Total length of tunnels | m | 42,744 |



9,470 km

Total length of tracks

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The closing date of this annual report is 7 June 2012.

SŽDC's vision

SŽDC's vision is to become a modern, flexible and customer-oriented organization ensuring the development of an operable, up-to-date and safe railway network as an inseparable part of the European railway system. Its long-term objective consists in creating the necessary conditions for strengthening the market position of railway transport at a national and international level through the dynamic development of a liberalized railway transport market.

I. Company profile

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

Scope of operations

Pursuant to applicable legal regulations, the Railway Infrastructure Administration, state organization [hereinafter referred to as „SŽDC“] fulfils the function of a rail owner and operator.

SŽDC provides

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

manages

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

and **carries out** business activity in accordance with the Trades Licensing Act.





Karel Brych

TRACK RECORDING CAR OPERATOR

15,210 km of measured and evaluated tracks

1,224 hours of permanent way diagnostics



II. Opening statement

Ladies and Gentlemen,
Dear Business Partners,

2011 marked the ninth year of SŽDC's existence.

In 2011, SŽDC achieved numerous successes in many key areas. One of the most significant ones worth mentioning is the flawless implementation of the transfer of the so-called "live infrastructure", i.e. rail maintenance and railway traffic control, from the Czech Railways, joint-stock company as at 1 September 2011. SŽDC thus became a full-fledged manager of the railway infrastructure, ensuring modern and efficient administration and access to the railway infrastructure for all passenger and freight carriers in line with European legislation.

This step clearly enhanced the efficiency of the Czech Republic's

overall railway operation. The transfer of railway maintenance was successfully carried out without interrupting the continuity and safety of railway operation. The synergies of this step include higher efficiency of operations in many areas of traffic control and railway infrastructure maintenance, from simplified traffic measures in winter months, to operational traffic control cooperation, to improved planning for repair-related traffic closures.

Last year, a key area with distinct economic benefits was efficient investment management, as part of which significant reductions in investment costs were achieved for completed construction projects. Record savings were achieved for building projects under construction and prior to commencement in 2011. The achieved savings were used for the preparation and implementation

of other important construction projects that contributed to the modernization and development of the Czech Republic's railway network. The introduction of the online operation of the over CZK 200,000 public contracts register also contributed to enhanced transparency and improved financial performance. In addition, last year a record investment of over CZK 500,000,000 was spent on enhancing safety at level crossings, which is our present and future priority.

2011 was also aimed at enhancing the quality of railway infrastructure maintenance. In the middle of the year, a special inspection of tracks detected certain deficiencies in the maintenance system applied in previous years. Systematic and nationwide repair of fasteners was therefore carried out, and periodic inspections of tracks

Jiří Kolář
Director General



were intensified. Thanks to the more rigorous inspections and maintenance, the number and duration of speed restrictions was reduced by several tens of percent in 2011. This, in addition to investment projects, helps systematically increase speed on SŽDC's lines, which enhances the competitiveness of rail transport in comparison with road passenger and freight transport.

As for the next period, SŽDC aims to intensively utilise resources from the Cohesion Fund of the European Union as part of the Operational Programme Transport. Despite a number of legislative obstacles imposed on us, as the recipient of these one-off investment funds, SŽDC did everything it could in 2011 to make sure that the level of co-funding for construction projects is as high as possible by the end of the budget period, i.e. by the end of 2013.

I believe that SŽDC's business results for last year paved the way for the further development and increased competitiveness of passenger and freight rail transport in the Czech Republic and the European Union.



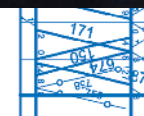
Jiří Kolář
Director General



Adolf Jílek
Chairman of the Management Board



Adolf Jílek
Chairman
of the Management Board





Jana Hlochová

TRAFFIC CONTROLLER

72 traffic controllers and operators
of the Centralized Traffic Control

180 km of remotely controlled
tracks in Moravia



III. 2011 highlights

JANUARY – SŽDC successful in utilising EU funds for construction projects.

The European Commission approved a sixth investment project (over EUR 50m) submitted by SŽDC – Electrification of the Šatov-Znojmo line. SŽDC could utilise nearly CZK 1bn from the Cohesion Fund of the European Union as part of the Operational Programme Transport. A direct link via an electrified line was set up between Znojmo and Vienna, and the cross-border railway infrastructure in the Znojmo region was connected to the European network.

FEBRUARY – The Government of the Czech Republic approved the formation of the “live infrastructure”.

The Government of the Czech Republic approved a proposal, submitted by the Minister of Transport, for the transfer of approximately 9,500 employees of Czech Railways to SŽDC. The decision of the Ministry of Transport to immediately finalize the transformation process came as early as the autumn of 2010 with a view to providing all carriers with equal access to the railway network, thus creating a competitive environment.

MARCH – Increased competitiveness in railway passenger transport – a new carrier enters the Czech railway sector.

By signing the General Agreement between SŽDC and Rapid Express, another carrier entered the Czech railway network in the segment of nationwide passenger transport. This has increased the number of carriers operating on the national rail network to the following three: Czech Railways, RegioJet and, most recently, Rapid Express (later renamed LEO EXPRESS). The fact that another carrier has entered the railway sector proves that

adequate conditions for a healthy competitive environment are in place.

APRIL – Substantial decline in the number of emergencies compared with 2010.

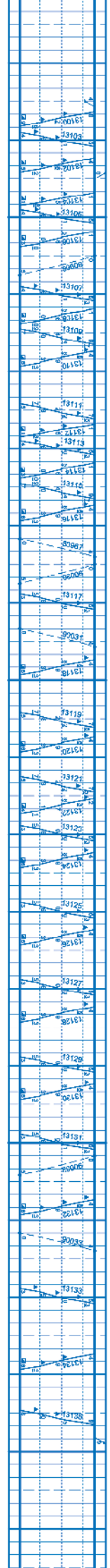
The number of emergencies at level crossings was markedly reduced in the first quarter of 2011 compared with the same period of 2010, and a positive decrease was also reported in terms of the consequences of these collisions. While in 2010 a total of 82 collisions at level crossings occurred in the first quarter, the same period of 2011 shows half that number, i.e. 41 cases.

MAY – III Railway Transit Corridor between Pilsen and Cheb completed.

As a result of the completion of the entire western branch of III Railway Transit Corridor, travel time between Cheb and Pilsen was reduced by nearly half an hour. Other benefits of the construction project include enhanced railway traffic safety, achieved through the installation of state-of-the-art signalling equipment, and enhanced comfort for passengers in the form of barrier-free access and information systems. Overall, the construction project ensured higher technical parameters of the line in compliance with the requirements for the trans-European railway network (TEN-T).

JUNE – Record amount invested in modernizing level crossings.

SŽDC took part in the International Level Crossing Awareness Day (ILCAD) in order to highlight the dangerous and risky behaviour of some road traffic participants at level crossings. To further enhance safety, it was decided that the amount of investment in making level crossings safer will exceed CZK 1bn in 2012. Another nearly 500 million will be spent on the repair and maintenance of level crossings.



III. 2011 highlights

JULY – Stepped-up inspections of technical conditions of carriers' historical vehicles.

Following an accident on 29 July 2011 near Jihlava, involving the derailment of a historical car and a steam locomotive, a severe damage of the line was detected and the Jihlava-Okříšky track section had to be closed. The train, including the steam locomotive and historical cars, had been headed to a weekend event in Slavonice. SŽDC also discovered two derailment marks in the track section between Okříšky and Bransouze stations. In each instance, the car was re-railed at a level crossing. Based on this accident, SŽDC decided to introduce stricter conditions for the operation of historical cars on the Czech railway network.

AUGUST – A new transport terminal opened at the Czech-German border.

The construction project, small in size yet great in significance, co-funded by the European Union as part of the programme of cross-border cooperation Objective 3 – Czech Republic – Free State of Bavaria 2007 – 2013, took less than three months to complete. The construction of the Nové Údolí transfer terminal is part of the development of tourism under a cross-border cooperation project between the regions of the Czech Republic, Bavaria and Austria, entitled the Danube – Ilz – Vltava Tourist Transportation Network. The partner of this part of the project was the South-Bohemian Region. Other parts of the project focus on the development of public cross-border transport and the linking of the cycling trail networks.

SEPTEMBER – Live infrastructure.

The Ministry of Transport endorsed contracts that confirm the transfer of staff from Czech Railways [hereinafter

referred to as "ČD"] to SŽDC. This step completely finalized the transfer of the so-called "live infrastructure". The transfer of rail operation activity led to the harmonization of all activities: safeguarding of the railway (maintenance, repair, investment), organization of rail transport (timetable creation, centralized dispatch control), and rail operation (traffic control).

OCTOBER - ETCS pilot project in the Czech Republic completed.

The European Train Control System (ETCS) pilot project was implemented in the Poříčany- Kolín track section. The main objective of the pilot project is to implement the ETCS in the Czech railway environment. The pilot project is co-funded by the European Union via the Cohesion Fund. The section covered by the pilot project includes a part of I Railway Transit Corridor, the 22km long Czech section of ETCS Corridor E; this is a double track line with the line speed of 160 km/h; there are three railway stations in this track section. The outputs and experience gained from the Poříčany-Kolín pilot project were used as part of the tender for the first construction of the ETCS in the section between Břeclav (state border) and Kolín.

NOVEMBER – A significant investment project started: „A thoroughfare through the Pilsen railway junction in the direction of III Railway Transit Corridor“.

The Pilsen railway junction thoroughfare project focuses on the western part of the junction from the western gridiron of the passenger station of Pilsen Main Station to the western gridiron of the current railway station Pilsen South Suburb, including the new bridging of the Radbuza River, Prokopova Street, Vejprnický Creek and Vejprnická Street. The construction project also includes building

a double-sided extended subway for passengers at Pilsen Main Station. The project is a breakthrough in terms of a substantial price reduction as a result of a tender. Compared with the initial expectations, savings of approximately CZK 600m were achieved. Date of commencement of construction: October 2011; expected date of completion of principal work: September 2013 (full completion scheduled for March 2014).

DECEMBER - SŽDC reorganization: A reduction in the number of organization units brought about substantial savings and enhanced performance.

The new structure created conditions for merging functions related to rail operation and ensuring operability at the level of SŽDC's organization units, and for merging the Regional Infrastructure Administrations and the Regional Operating Centres (under SŽDC as of 1 September 2011). This step completed the "live infrastructure" project at the level of SŽDC's organization units. The Regional Infrastructure Administrations [hereinafter referred to as "SDCs"] and the Civil Engineering Administrations [hereinafter referred to as "SSs"] are SŽDC's organization units that are responsible for the administration, maintenance, repair (SDCs), reconstruction and construction (SSs) of all structures representing the railway infrastructure and other tangible assets that SŽDC is entitled to manage. As a result of the reorganization, the original 13 SDCs merged into seven. As of 1 January 2012 there are two SSs instead of the previous three. By merging and integrating the organization units, the new SDC districts approximate in size the NUTS 2 administration districts.



Aleš Kuchař

TRAIN DISPATCHER

4,477 train dispatchers

129 traffic controllers



IV. Corporate Governance in 2011

Statutory body

Director General
position not filled

**1st Deputy Director General,
Executive Director**
Pavel Habarta

2nd Deputy Director General
Bohuslav Navrátil

SŽDC Management [as at 31 December 2011]

**1st Deputy Director General,
Executive Director**
Pavel Habarta

2nd Deputy Director General
Bohuslav Navrátil

**Deputy Director General for Rail
Operation**
Jaromír Kadlec

**Deputy Director General for Rail
Operability**
Josef Novobilský until 30 June 2011;
from 1 July 2011 to 31 August 2011

Ivan Jágr was assigned to run this division; as of 1 September 2011 Vojtěch Kocourek

**Deputy Director General for Rail
Modernization**
until 30 March 2011 – position not filled; as of 1 April 2011 Jiří Martínek

Deputy Director General for Economy
Vladimír Filip

**Deputy Director General for Asset
Management**
Until 31 March 2011 Vladimír Filip was assigned to run this division; Deputy DG's position cancelled as at 31 March 2011 as a result of an organizational change

**Deputy Director General for Human
Resources**
Zdeněk Jílek until 31 March 2011; Deputy DG's position cancelled as at 31 March 2011 as a result of an organizational change

**Deputy Director General for
Strategy**
Bohuslav Navrátil until 31 March 2011; Deputy DG's position cancelled

as at 31 March 2011 as a result of an organizational change

**Deputy Director General for
Technical Services**
Radek Vičar until 31 March 2011; Deputy DG's position cancelled as at 31 March 2011 as a result of an organizational change

Management Board

Chairman
Adolf Jílek

Members
Ivan Adamec
Lukáš Hampl
Jakub Hodinář
Libor Joukl
Roman Jurečko
Radim Vysloužil

Audit Committee
Hana Březinová
Lukáš Hampl
Radim Vysloužil



SŽDC Management in 2012

Director General

Jiří Kolář (since 19 April 2012)

1st Deputy Director General, Executive Director

Pavel Habarta – assignment cancelled by the Management Board as at 19 April 2012; as at 31 May 2012 position cancelled as a result of an organizational change

Deputy Director General for Operations

Bohuslav Navrátil (from 1 April 2012 to 31 May 2012) as a result of an organizational change as of 1 April 2012; as at 31 May 2012 position cancelled as a result of an organizational change

First Deputy Director General

Jan Blecha since 1 June 2012 as a result of an organizational change

Deputy Director General for Economy

Vladimír Filip until 9 February 2012; from 16 February 2012 until the date of appointment, Jiří Svoboda assigned to run the division; Jiří Kohout from 1 April 2012 to 18 April 2012 –

resigned; from 20 April 2012 until the date of appointment, Jiří Svoboda assigned to run the division; from 1 May 2012 to 31 May 2012 Jan Blecha; since 1 June 2012 Aleš Krejčí

Deputy Director General for Rail Modernization

Jiří Martínek until 30 April 2012; since 1 May 2012 Petr Šlegř

Deputy Director General for Rail Operability

Vojtěch Kocourek until 9 February 2012; position not filled and cancelled as at 31 March 2012 as a result of an organizational change; Bohuslav Navrátil as of 1 June 2012, position established as a result of an organizational change

Deputy Director General for Traffic Control

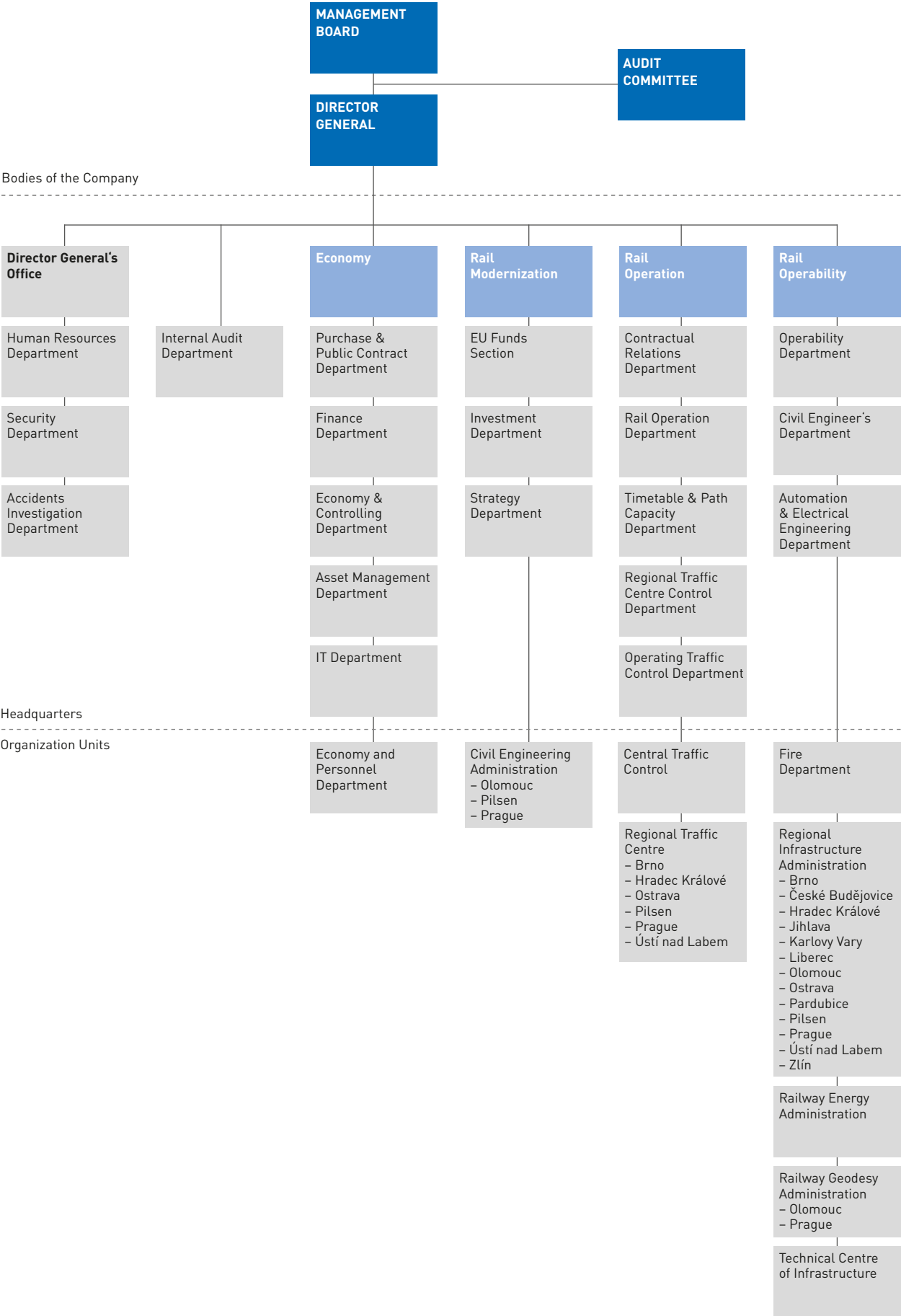
As of 1 June 2012 position established as a result of an organizational change – as at 1 June 2012 position not filled; from 1 June 2012 until the date of appointment, Bohuslav Navrátil assigned to run the division

Deputy Director General for Rail Operation

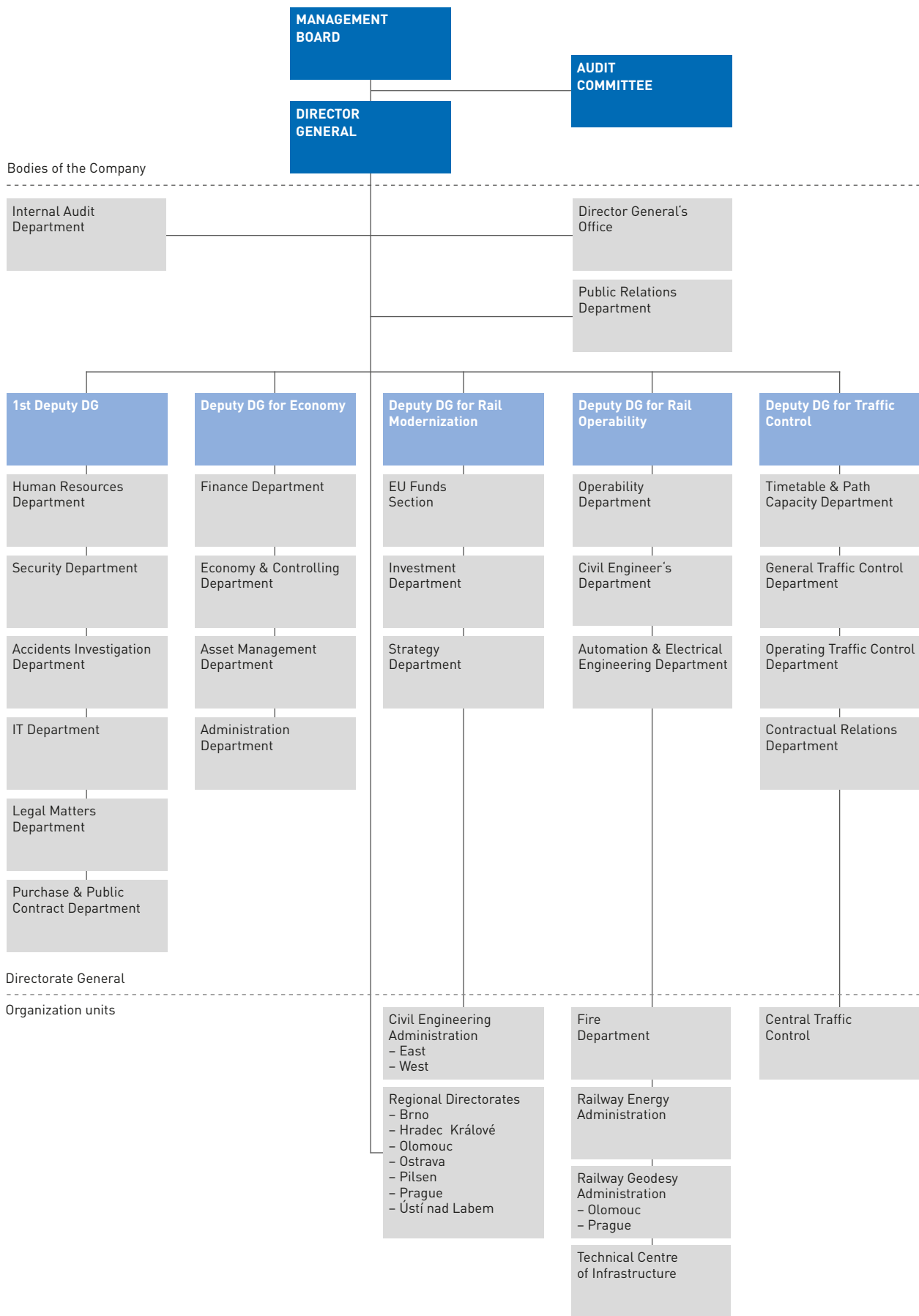
Pavel Skála assigned to run the division from 1 January 2012 to 31 March 2012 – as at that date, position cancelled as a result of an organizational change



SŽDC's organizational structure as at 31 December 2011



SŽDC's organizational structure as of 1 June 2012



IV. Corporate Governance in 2011

SŽDC's organization units (as at 31 December 2011)

SŽDC was organized into the Headquarters and 29 organization units: Regional Infrastructure Administrations [13], Civil Engineering Administrations [3], Railway Geodesy Administrations [2], Railway Energy Administration [1], Technical Centre of Infrastructure [1], Fire Department [1], Regional Operating Centres [6], Central Traffic Control [1], and Economy and Personnel Department [1].

Specification of the organization units' activities

Regional Infrastructure Administration

The Regional Infrastructure Administration ensured primarily the administration, control, inspection, repair and maintenance of the railway infrastructure in the respective region. The railway infrastructure represents railway substructure, superstructure, level crossings, structures and fixed installations required for protection against the adverse impacts of rail transport, telecommunication installations, signalling installations, electrical facilities, fixed installations for the measurement, maintenance and repair of rail, buildings and guided transport facilities.

Civil Engineering Administration

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

Railway Geodesy Administration

Ensures administration, control, supervision and operations related to geodesy. This involves e.g. administration of the railway geodetic grid, administration of a unified railway map, control over track geometry, and cadastral administration of rail property.

Railway Energy Administration

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

Technical Centre of Infrastructure

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

Fire Department

Performs fire-fighting and rescue tasks during accidents on and off the rail network. It is part of the Integrated Rescue Service of the Czech Republic. It cooperates with relevant Regional Infrastructure Administrations in order to ensure rail operability.

Regional Traffic Centre

The Regional Traffic Centre [hereinafter referred to as „RCP“] ensured railway infrastructure operation, railway traffic control and the organization of guided transport in the respective region. Other activities included the preparation and maintenance of principal transport documentation, the design and arrangement of station and track technology, traffic inspection, meetings with state administration and self-administration bodies.

Central Traffic Control

Central Traffic Control [hereinafter referred to as „CDP“] in Přeřov ensures remote control of train traffic in the Přeřov – Břeclav and Přeřov – Ostrava-Svinov track area. CDP consists of several traffic control halls. A traffic control hall comprises all control and other workplaces of all function posts of managerial staff for the respective controlled zone. CDP traffic controllers directly control traffic in the allocated section of the

controlled area and they remotely operate signalling installations.

Economy and Personnel Department

The Economy and Personnel Department [hereinafter referred to as „EPS“] centrally performed tasks related to financial and legal matters for RCP units, as the RCP had no financial departments of its own. Among other things, EPS centrally ensured the purchase and distribution of uniforms for train dispatchers and other RCP employees.

SŽDC's organization units (as of 1 April 2012)

SŽDC is organized into the Directorate General and 15 organization units: Regional Directorates [7], Civil Engineering Administrations [2], Railway Geodesy Administrations [2], Railway Energy Administration [1], Technical Centre of Infrastructure [1], Fire Department [1] and Central Traffic Control [1].

Regional Directorate

The Regional Directorate combines the activities of the former SDC units – operability (civil engineer's) and the RCP (rail operation and traffic control). The benefits of the new regional directorates lie mainly in synergies in the form of more effective management and closer cooperation at all levels of the two merged functions.



Jiří Rus

SWITCH ATTENDANT

798 switch attendants

2,986 other operating staff



V. Operating the railway infrastructure

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

Pursuant to Railway Act, SŽDC is obligated to ensure the operation of the national and regional rail networks. From 1 July 2008, SŽDC performed the duties of a rail operator in-house; only the work associated with "rail service", i.e. traffic control at stations and along rail lines, was outsourced to Czech Railways, the rail operator until 31 August 2011.

As at 1 September 2011, following Resolution of the Czech Government No. 100, dated 9 February 2011, and Resolution of the Czech Government No. 486, dated 22 June 2011, the so-called "live infrastructure" was transferred from Czech Railways to SŽDC. Thus, as at 1 September 2011 organizational changes were implemented and the contractual relationship with Czech Railways was terminated. Since that date, all rail operating activities, including rail service, are provided directly by SŽDC, which became a full-fledged infrastructure manager pursuant to EC law.

This organizational change had a significant impact on both the organizational structure and the performance of the duties of a rail operator stipulated by the Railway Act. The change brought about the transfer of staff from Czech Railways to SŽDC. This transfer mainly applied to operating staff (in particular, traffic controllers, dispatchers, operators, signalmen, points operators, block signalmen and train announcers) and partially also to managerial staff at all levels. As at 1 September 2011, rail service was incorporated into the organizational structure of SŽDC, which had already planned for the staff transfer. The final integration of the rail service unit into SŽDC's organizational structure was carried out via an organizational change that occurred as at 1 April 2012.

Classification of operators of the national and regional rail networks owned by the state as at 31 December 2011 (by the length of operated lines):

| | data in km |
|-------------------------------|------------|
| SŽDC | 9,413 |
| VIAMONT a.s. | 37 |
| Advanced World Transport a.s. | 20 |

The regional routes of Trutnov – Svoboda nad Úpou and Sokolov – Kraslice were operated by VIAMONT a.s. in 2011, based on a lease contract. Under a lease contract, the regional route of Milotice nad Opavou – Vrbno pod Pradědem was operated by Advanced World Transport a.s.

In 2011, SŽDC spent CZK 5,239 million on railway infrastructure operation. This amount comprises expenses arising from the contractual relationship with Czech Railways (January – August 2011), as well as SŽDC's own expenses related to rail infrastructure service (September – December 2011) and the central costs of organizing rail transport, costs of operating the telecommunication assets, etc.





Karel Sadílek

TRACK SUPERVISOR

214

track supervisors continuously checking track condition

15,552

km of the extended length of tracks



VI. Operability of the railway infrastructure

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

Ensuring operability involves thorough observance of internal regulations stipulated by the Railway Act and Regulation No. 177/1995 Coll. which issues the Railway Building and Technical Code. The system of periodic measurements by means of various diagnostic tools (measuring cars, measuring trolleys, KRAB, hand-operated measuring instruments, etc.) identifies problematic spots of the railway infrastructure. After the measured values are assessed, the deadline for remediation is set. In 2011, these requirements were met.

In 2011, the operability of the railway infrastructure managed by SŽDC was ensured mainly by SŽDC's organization units, i.e. Regional Infrastructure Administrations. The work related to the operability of the railway infrastructure is carried out internally or outsourced to suppliers operating on the respective market. These suppliers are selected on the basis of a tender procedure.

In 2011, rail operability was not significantly affected by any extreme weather conditions. Snowfall and frost were below-average, i.e. traffic restrictions were minimal.

The general issue related to ensuring operability is reflected mainly in the number of speed restrictions introduced. For 2011, the limit of assessed speed restrictions in the whole network as at 31 December 2011 was set at 9,234 km; the actual value of assessed speed restrictions as at 31 December 2011 was 2,801 km. An assessed speed restriction is a speed restriction that is introduced due to poor technical conditions of the infrastructure and/or poor visibility at level crossings.

In connection with an emergency that occurred on 5 June 2011 in the Vyškov-Ivanovice na Hané track section, special inspections were carried out on all lines managed by SŽDC, focusing on the reliability of fasteners. The so-called temperature speed restrictions were implemented for track sections with loose fasteners until these were tightened or replaced. Following the special inspections, sections with

problem fasteners were identified and these fasteners were and/or will be replaced with more modern types as part of maintenance and repair work.

In 2011, SŽDC focused on enhancing safety at level crossings. The safety system was changed at a total of 45 level crossings, of which 28 level crossings that had previously been secured by warning crosses only were upgraded to a higher safety level.

The total expenses [excluding amortization and the costs of eliminating the damage caused by floods] incurred in ensuring operability of the railway infrastructure, including the centrally kept expenses of providing operability, amounted to CZK 8,506 million in 2011. In addition, projects totalling CZK 457 million related to the elimination of the flood damage of 2009 and 2010 were implemented.

| Overview of selected activities | 2010 | 2011 |
|---|----------|----------|
| Longitudinal and vertical alignment of tracks, including replenishment of the railway bed | 1,024 km | 1,585 km |
| Maintenance of railway bed – tracks, including replenishment of the railway bed | 83 km | 105 km |
| Set-up of contact-free tracks, welding – tracks | 89 km | 155 km |
| Set-up of contact-free tracks, welding – switches | 205 s.u. | 205 s.u. |
| Replacement of rails | 144 km | 265 km |
| Replacement of railroad ties, including vertical track alignment | 115,450 | 168,628 |

Note: The above procedures are carried out as required based on the results of monitoring activities and diagnostics.



Martin Kraus

CHIEF ENGINEER OF THE CONSTRUCTION

181 SŽDC's investment projects under implementation

72 km of modernized track sections in operation



VII. Modernization and development of the railway infrastructure

In terms of modernizing and developing the railway infrastructure, SŽDC's long-term objective is to prepare and implement investment projects focusing on the following priorities:

- modernization of railway transit corridors,
- modernization of crucial railway junctions,
- modernization of other lines integrated into the European railway system,
- ensuring the interoperability of selected lines, especially the implementation of GSM-R, ETCS
- investment in the railway infrastructure to support the development of suburban transport and integrated transport systems,
- progressive modernization and reconstruction of other selected national and regional lines with a view to creating conditions ensuring high-quality transport services,
- electrification of selected railway lines,
- investment ensuring the operability of the railway infrastructure,
- enhanced safety of railway transport, in particular at level crossings,
- implementation of performance improvement projects aimed at

installing state-of-the-art signalling equipment, enhancing railway transport safety and reducing rail maintenance costs.

Modernization of railway transit corridors

There are four national railway corridors in the Czech Republic. The strategic goal relating to their modernization is to ensure high-quality international connection between the Czech Republic and the neighbouring countries, and fast and high-quality connection between the individual regions of the Czech Republic. The modernization of the railway transit corridors represents a qualitative improvement in the Czech Republic's railway transport and a substantial reduction in travel times on significant rail routes, in particular Prague – Ostrava and Prague – Brno. The completed modernization of the First Railway Transit Corridor in the Děčín – Prague – Česká Třebová – Brno - Břeclav track section and of the Second Railway Transit Corridor in the Břeclav – Přerov – Petrovice u Karviné track section was followed by the modernization of the Third and Fourth Railway Transit Corridors.

The Third Railway Transit Corridor runs in the track section of Mosty u Jablunkova, Czech-Slovak state border – Dětmárovce, Přerov – Česká Třebová, Prague – Pilsen – Cheb, Czech-German state border. The track section of Prague – Česká Třebová was implemented as part of the First Railway Transit Corridor and the section of Přerov – Dětmárovce as part of the Second Railway Transit Corridor.

In 2011, on the Mosty u Jablunkova - Dětmárovce branch, construction work continued on the projects "Optimization of the track section along Slovakia's state border – Mosty u Jablunkova – Bystřice nad Olší", expected to be completed in 2013, and "Optimization of the track section of Bystřice nad Olší – Český Těšín", expected to be completed in 2012. Project work continues on the projects "Optimization of the track section of Bystřice nad Olší – Český Těšín, second part – Český Těšín railway station" and "Optimization of the track section of Český Těšín – Dětmárovce", whose implementation is expected to commence in 2013.

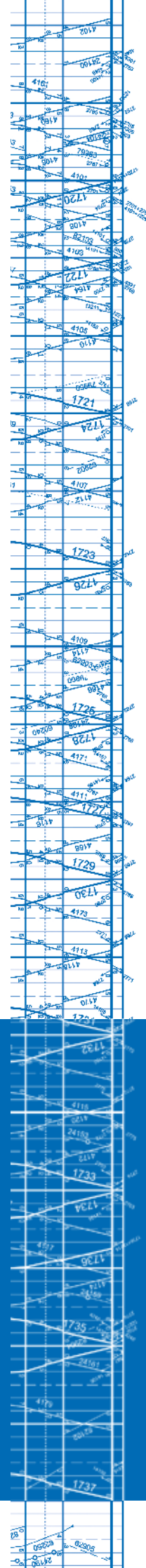
In the track section between Prague and Pilsen, the "Optimization of the



track section of Beroun – Zbiroh” was completed in 2011, and construction work continues on the project “Optimization of the track section of Zbiroh – Rokycany”, expected to be completed in 2013. 2012 will see commencement of the construction project “Modernization of the track section of Rokycany – Pilsen”, which will markedly shorten and speed up this section. There are preparations for the optimization of the Prague-Beroun track section in its current path. The track sections from Praha Smíchov to Černošice and from Beroun to Králův Dvůr are scheduled to commence in 2013; the Černošice-Beroun track section a year later. Since the modifications to the current Praha Smíchov-Beroun line cannot guarantee the required outputs in the future, especially in long-distance transport, it is necessary to plan the construction of a new route. The implementation of the project “Prague – Beroun, a new railway link” is scheduled to commence after 2016. After its completion, the full effect of the new line will be demonstrated, in terms of further investments in the new projected railway connection between Prague and Munich.

In the section between Pilsen and Cheb, all projects have been completed. In 2011, the construction project “Thoroughfare through the Pilsen junction in the direction of the Third Railway Transit Corridor” commenced, expected to be completed in 2014, and project work continues on the project “Optimization of the Cheb-state border track section”, expected to be launched in 2013.

The projects “Optimization of the Horní Dvořiště-České Budějovice track section”, “Modernization of the track section Veselí nad Lužnicí – Tábor – first part, Doubí u Tábora – Tábor”, “Optimization of the Benešov u Prahy-Strančice track section” and “Optimization of the Strančice – Praha Hostivař track section” have been completed in the Fourth Railway Transit Corridor, which covers the track section Horní Dvořiště – České Budějovice – Prague. The implementation of the project “Modernization of the Votice-Benešov u Prahy track section” is ongoing, expected to be completed in 2013; and the project “Modernization of the České Budějovice-Nemanice track section” commenced in 2011. The projects “Modernization of the track



VII. Modernization and development of the railway infrastructure

section Ševětín – Veselí nad Lužnicí, second part, between Horusice and Veselí nad Lužnicí” and “Modernization of the Tábor-Sudoměřice track section” are ready for implementation in 2012. Project work continues on the remaining construction projects in the Fourth Railway Transit Corridor, which is expected to be fully completed in 2018.

Modernization of crucial railway junctions

In order to ensure smooth transit on corridor lines, significant railway junctions are modernized as a follow-up to the modernization of corridors. Thoroughfares through the railway junctions of Děčín, Ústí nad Labem, Kolín, Choceň, Břeclav (first construction project) and Bohumín have been completed. The projects “Modernization of the western part of Prague Main Station”, “the New Link”, connecting Prague Main Station and Praha Masarykovo nádraží with Libeň, Holešovice and Vysočany Stations, and “Modernization of the Praha-Libeň – Praha-Běchovice track section” have been completed at the Prague junction. The reconstruction of the Přerov junction is being implemented, and the reconstruction of the Olomouc station, the of the Ústí nad Orlicí junction and the reconstruction of the Břeclav junction (second construction project) are scheduled to be implemented in 2012. Preparations are under way for the projects “Optimization of the Praha-Holešovice – Praha-Bubeneč track section” and “Modernization of the Praha-Běchovice – Úvaly track section”, which will complete the First Railway Transit Corridor’s thoroughfare through the Prague junction. Preparatory work continues on construction projects in the track sections Praha-Hostivař – Prague Main Station and Prague Main Station – Praha-Smíchov, which will connect the third and fourth corridors to the Prague junction. Preparatory work also continues on thoroughfares through the junctions of Pilsen, Brno, Ostrava, Pardubice and Česká Třebová.

Modernization of other lines integrated into the European railway system

In 2011, the reconstruction of Střelenský Tunnel on the line Horní Lideč – Slovak state border was launched with the objective to improve the link with Slovakia. There are preparations for the optimization of lines in the track sections Kolín – Všetaty – Děčín, Lysá nad Labem – Praha Vysočany, Ústí nad Labem – Cheb, and České Budějovice – Pilsen. New lines in the track sections Choceň – Ústí nad Orlicí, Brno – Přerov, and Pilsen – Česká Kubice are scheduled for implementation in the longer term.

Ensuring the interoperability of selected lines

Other significant investment includes construction projects ensuring the interoperability of the railway network. The implementation of the GSM-R digital radio system at the First Railway Transit Corridor Děčín – Kolín – Břeclav and at the Second Railway Transit Corridor Břeclav – Přerov – Petrovice u Karviné is followed by the implementation of GSM-R in the track sections Ostrava – Mosty u Jablunkova – Slovak state border, Přerov – Česká Třebová, and Děčín – Všetaty – Kolín. Implementation in the track sections Kolín – Havlíčkův Brod – Křižanov – Brno, Beroun – Prague – Benešov, Beroun – Pilsen – Cheb, and Benešov – České Budějovice – Horní Dvořiště is under preparation. After the completion of the ETCS [European Train Control System] pilot project in the track section Poříčany – Kolín, implementation in the track sections Kolín – Břeclav – Austrian-Slovak state border, and, subsequently, Kolín – Prague – Děčín – German state border is under preparation. A central traffic control centre has been put into operation in Přerov; it currently controls traffic at the Second Railway Transit Corridor and is expected to control all corridor lines in Moravia in the future. A second central traffic control centre, which will control traffic on the corridor lines in Bohemia, is being set up in Prague.

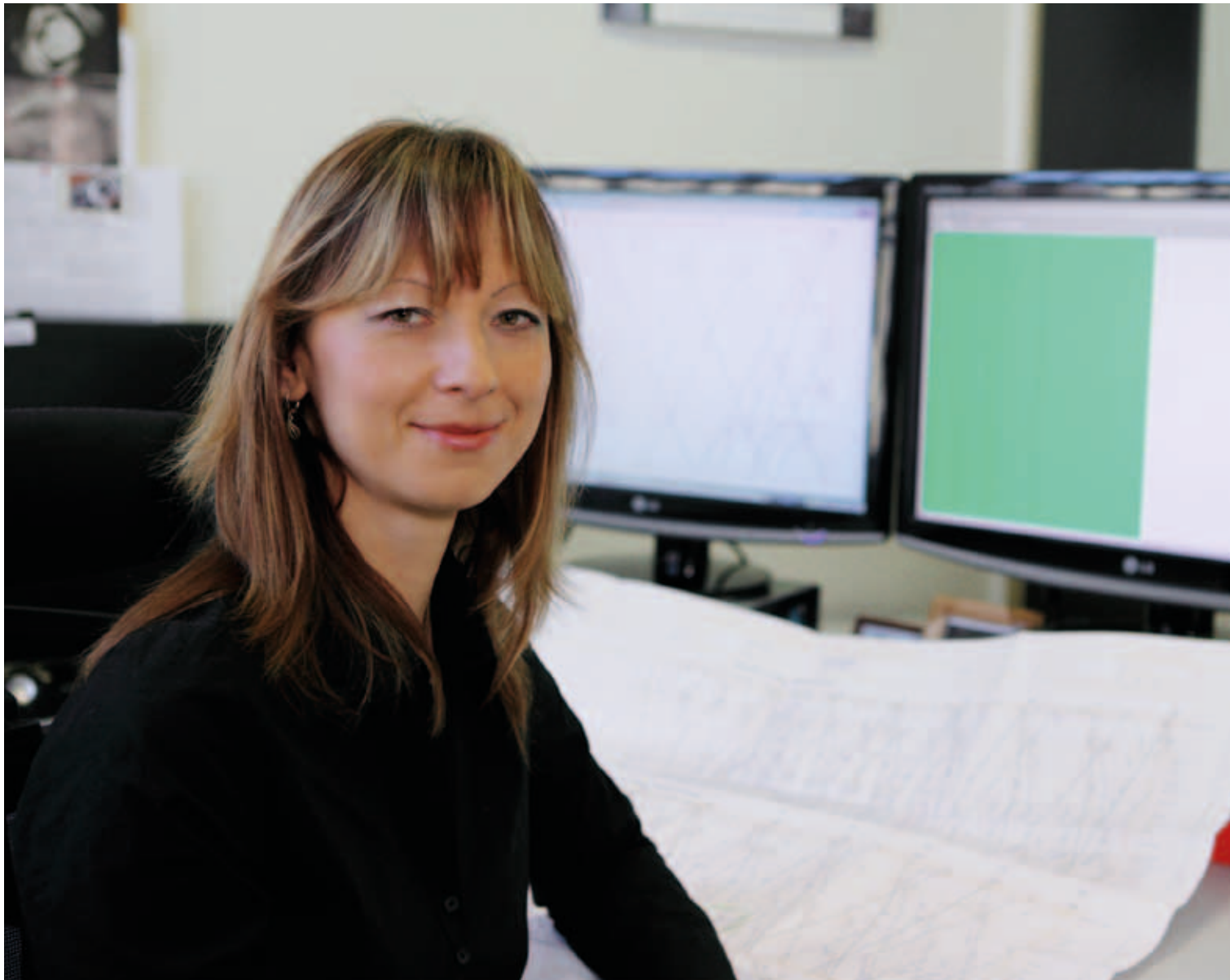
Investment in the railway infrastructure to support the development of suburban transport and integrated transport systems

In order to enhance the quality of suburban transport, the following projects are under preparation: the modernization of the Hradec Králové – Pardubice track section, including the double-tracking of the section Stéblová – Opatovice nad Labem; and the optimization of the track sections Ostrava-Kunčice – Frýdek-Místek – Český Těšín, Brno – Train stop outside of Brno, Otrokovice – Zlín, and Prague – Kladno with a link to Ruzyně Airport.

Priorities and targets of the investment programme

The top priority in 2011 was the preparation and implementation of an investment project focusing on the modernization and development of the railway infrastructure, funded as part of the Operational Programme Transport [hereinafter referred to as „OPT“]. In addition, projects necessary to enhance safety at level crossings continued to be implemented in order to avoid/reduce the risk of collisions at critical railway spots. Reconstructions and modernizations of level crossings were carried out as independent projects or as an integral part of other construction projects, e.g. modernizations, performance improvement projects and reconstructions of lines/track sections.

In the coming years, the capital expenditure programme will focus on projects which contribute to establishing high-quality connection between the Czech Republic and other countries, while taking into account domestic needs for fast and high-quality connections across specific regions of the Czech Republic. The key benefits of the modernization are enhanced speed, safety and travel comfort, increased path capacity, increased reliability of passenger and freight transport, and a reduced impact on the environment.



Ladislava Pechková

TIMETABLE DESIGNER



8,828 passenger transport connections in the timetable

75 carriers in passenger and freight transport



VIII. Utilization of the railway infrastructure by carriers

In the Czech Republic, equal access to the state-owned railway infrastructure is guaranteed for all carriers that meet the terms defined by the Railway Act. As of 1 January 1995 the Czech Republic introduced

a standard system for granting licences to operate rail transport, and as of 1 May 2004 a license to operate rail transport has been awarded by an EC member state authority.

The number of carriers utilizing the railway infrastructure increased compared with 2010.

Trend in the number of carriers [as at 31 December of the respective year]:

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------|------|------|------|------|------|------|------|------|------|
| Carriers | 46 | 50 | 52 | 53 | 56 | 53 | 62 | 68 | 75 |

Performance of carriers in 2007 – 2011:

| Year | | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Passenger | [trkm] | 118,387,288 | 121,939,150 | 125,911,649 | 123,268,921 | 122,974,780 |
| Freight | [trkm] | 43,466,460 | 43,685,964 | 36,594,939 | 36,926,304 | 37,568,712 |
| Total | [trkm] | 161,853,748 | 165,625,114 | 162,506,588 | 160,195,225 | 160,543,492 |
| Passenger | [thousand gtkm] | 23,103,133 | 24,155,227 | 24,989,309 | 23,711,845 | 23,996,805 |
| Freight | [thousand gtkm] | 39,250,794 | 37,996,173 | 30,584,797 | 32,516,559 | 33,479,076 |
| Total | [thousand gtkm] | 62,353,927 | 62,151,400 | 55,574,106 | 56,228,404 | 57,475,881 |

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

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



Share of carriers in freight transport production in 2010 and 2011 (%):

| Carrier | gtkm 2010 | trkm 2010 | gtkm 2011 | trkm 2011 |
|---|-----------|-----------|-----------|-----------|
| ČD Cargo, a.s. | 86.84 | 78.19 | 84.36 | 76.18 |
| Advanced World Transport a.s. | 5.63 | 4.14 | 6.21 | 4.60 |
| UNIPETROL DOPRAVA, s.r.o. | 3.62 | 2.96 | 3.53 | 3.09 |
| PKP CARGO SPÓŁKA AKCYJNA | 0.42 | 0.44 | 1.12 | 1.35 |
| České dráhy, a.s. | 0.89 | 4.28 | 0.58 | 3.37 |
| LOKO TRANS s.r.o | 0.10 | 0.11 | 0.55 | 0.35 |
| SD - Kolejová doprava, a.s. | 0.03 | 0.04 | 0.53 | 0.35 |
| IDS CARGO a.s. | 0.13 | 0.13 | 0.49 | 0.52 |
| LTE Logistik a Transport Czechia s.r.o. | 0.20 | 0.14 | 0.47 | 0.38 |
| METRANS Rail s.r.o. | 0.11 | 0.14 | 0.45 | 0.39 |
| Other carriers | 2.03 | 9.43 | 1.71 | 9.42 |

Note: Effective from 1 May 2010, OKD, Doprava, akciová společnost changed its name to Advanced World Transport a.s.

Share of carriers in passenger transport production in 2010 and 2011 (%):

| Carrier | gtkm 2010 | trkm 2010 | gtkm 2011 | trkm 2011 |
|---------------------------------------|-----------|-----------|-----------|-----------|
| České dráhy, a.s. | 99.76 | 99.04 | 99.31 | 98.62 |
| RegioJet a.s. | 0.02 | 0.05 | 0.38 | 0.23 |
| VIAMONT Regio a.s. | 0.16 | 0.76 | 0.15 | 0.75 |
| Vogtlandbahn-GmbH, organizační složka | 0.01 | 0.02 | 0.13 | 0.32 |
| Other carriers | 0.05 | 0.13 | 0.03 | 0.08 |

Note: Effective from 20 December 2011, VIAMONT Regio a.s. changed its name to GW Train Regio a.s.



VIII. Utilization of the railway infrastructure by carriers

The track access charge is regulated. Maximum charges are set by the Ministry of Finance. Effective from 1 January 2009, the maximum track access charge was reduced by 20% for both passenger and freight transport. This reduction was in effect in 2011 as well. In addition, in 2011 charges for passenger trains that do not provide core regional transport services were partially increased to the maximum charge in accordance with the Ministry of Finance's assessment, and charges for freight trains were reduced by approximately 9%.

As the allocator pursuant to the Railway Act, SŽDC allocates path

capacity at a price agreed on in accordance with applicable price regulations, by specifying framework time routes of trains. SŽDC is obligated [during the process of path capacity allocation] to ensure equal track access for all carriers, with the aim of maximizing the utilization of path capacity. SŽDC issues the National and Regional Network Statement on this subject, publishing detailed conditions for path capacity allocation.

On 8 December 2011, SŽDC published the National and Regional Network Statement valid for the 2012/2013 timetable. This document was prepared pursuant to the RailNetEurope common

structure. The deadline for carriers' applications for path capacity allocation was 10 April 2012.

A total of 20 carriers applied for path capacity allocation for the 2011/2012 timetable based on the National and Regional Network Statement, of which 8 carriers requested capacity allocation for passenger transport. After a coordination process, carriers were allocated capacity and their applications were incorporated into the timetable for 2011/2012, which became effective on 11 December 2011. In 2011, SŽDC allocated a total of 3,938,882 paths as part of the individual capacity allocation processes.

| Type of capacity | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| As part of preparing the timetable | 4,355,258 | 4,237,416 | 3,886,141 | 3,759,730 | 3,599,600 |
| As part of a change to the timetable | 77,986 | 163,433 | 167,490 | 128,949 | 90,347 |
| Ad hoc standard | 60,408 | 43,169 | 77,479 | 83,623 | 82,168 |
| Requests for residual capacity | 78,299 | 150,691 | 148,575 | 163,166 | 166,767 |
| Total | 4,571,951 | 4,594,709 | 4,279,685 | 4,135,468 | 3,938,882 |

Note: ad hoc – capacity allocated per case

In 2012, SŽDC will continue to create favourable conditions for enabling new carriers access to the railway infrastructure operated by SŽDC,

and to ensure equal track access for carriers and proper and fair collection of track access charges.





Alois Ondrouch

BRIDGE MASTER

6,735 railway bridges

150,945 m of the total length of bridges



IX. Rail operation safety

The Security Department, integrated into SŽDC's Directorate General, carries out activities imposed on SŽDC by Section 49 of the Railway Act as well as the rail operator's and carrier's obligations pursuant to Ministry of Transport Regulation No. 376/2006 Coll., on the Rail Operation and Rail Transport Safety System and Procedures during Rail Accidents. The main duties of this department include investigating accidents and fatal and serious work injuries.

On 1 September 2011, based on a resolution of the Czech Government, the remaining activities related to rail operation were transferred from ČD to SŽDC. This transfer also included the staff of the Railway Transport Security Department of ČD's Directorate General, whose tasks comprised investigation of accidents and fatal and serious work injuries. These employees were integrated into the Accidents Investigation Department of SŽDC's Directorate General. The transfer of activities also involved

all obligations, i.e. contractual obligations related to cooperation in the event of rail transport accidents and in the event of fatal and serious work injuries. Investigation of accidents and fatal work injuries for contractual partners, including the preparation of summaries of accidents, is conducted in order to ensure the required quality and consistency of investigations and to improve the financial performance of all companies involved. Also important is the department's contribution to railway traffic monitoring and occupational health and safety.

The Safety Management System also includes the preparation of annual reports on rail operation and railway transport safety for state administration authorities and other national and international organizations (ERA, UIC). They define and evaluate safety targets and present statistical summaries. In terms of safety objectives, SŽDC as the national and regional rail operator aims to operate the national

and regional railway network safely, reliably and ecologically. The 2011 accident rate figures demonstrate that the total number of accidents on the network operated by SŽDC decreased. Also, the number of accidents under SŽDC's responsibility, the number of persons that suffered an injury, and the total damage caused by accidents were markedly reduced.

As a result, we can justifiably claim that in the past period SŽDC succeeded in enhancing the safety of rail operation and railway transport and the specified safety objectives were achieved. The safety of rail operation and railway transport ensured by SŽDC is consistently kept at a very high level.





Michal Havel

FIRE FIGHTER SPECIALIST

462 members of Fire
Rescue Service

118 cars and other special-purpose
mobile equipment



X. Asset management

The main task related to asset management is to ensure management of the temporarily or permanently disposable immovable state assets that are administered by SŽDC. The term management means transfers of the right to manage assets, or transfers of the title to assets, privatization of assets, and the temporary use of assets by third parties.

Pursuant to Section 26 of the Transformation Act, SŽDC manages state assets recorded in two accounting categories. The railway infrastructure accounting category includes assets specified in Section 20 (1) of the Transformation Act (hereinafter referred to as "ZDC category"); the other category includes assets defined in Section 38a (1) of the Transformation Act and listed in its annex (hereinafter referred to as "MOZ category"). The right to manage ZDC category assets originated as of 1 January 2003 in compliance with the Transformation Act; SŽDC's right to manage MOZ category assets originated as at 1 July 2004 through an amendment to that act.

Permanently disposable immovable ZDC category assets are sold off in accordance with the Transformation Act, and temporarily disposable ZDC category assets are leased to third parties.

Revenues from the sale of disposable immovable ZDC category assets totalled CZK 60.4 million in 2011. Revenues from the lease of disposable assets totalled CZK 75.2 million in 2011.

MOZ category assets are transferred to new owners, with certain exceptions, through the so-called big privatization pursuant to Act No. 92/1991 Coll., on Conditions for Transferring State Assets to Other Persons. Until sold or privatized, suitable MOZ category assets are leased to third parties.

Pursuant to Section 38a (3) of the Transformation Act, all revenues from MOZ assets are to be used to settle the liabilities of the former state organization Czech Railways.

The process of privatizing MOZ category assets is in the stage of

finalizing the remaining cases where property rights need to be resolved.

In compliance with applicable legislation, only the Ministry of Finance can conclude purchase contracts with the new acquirers of privatized assets, and subsequently (ex post) it remits the privatization revenues to SŽDC, based on the concluded Contract for the Transfer of Funds, which includes amendments containing updated lists of privatization projects. The last amendment is No. 2 and was concluded on 26 January 2011.

In 2011, the Ministry of Finance remitted CZK 30.1 million to SŽDC (of which approximately CZK 28.7 million for projects implemented from 2008 to 2010 and approximately CZK 1.5 million for projects implemented in 2011).

In 2011, revenues from the sale of MOZ category assets totalled CZK 1.5 million.

In 2011, revenues from the lease of MOZ category assets totalled CZK 40.4 million.





Jan Bárta

ELECTRICAL ENGINEER

1,681 electrical staff

3,208 km of electrified lines



XI. Company performance

A. Operation and operability of the railway infrastructure

The costs of ensuring the operation and operability of the railway infrastructure [excluding amortization and the costs of eliminating the damage caused by floods] totalled CZK 13,745 million in 2011, comprising expenses arising from the contractual relationship with Czech Railways and SŽDC's own expenses related to these activities. They mainly comprised personnel expenses and expenses incurred in outsourcing construction work.

The following revenues were used to cover expenses:

| [in millions of CZK] | |
|---|--------------|
| Revenues from track access | 4,405 |
| of which: | |
| freight transport (ČD and ČD Cargo, a.s.) | 2,384 |
| passenger transport (ČD) | 1,577 |
| other carriers (except for ČD and ČD Cargo, a.s.) | 444 |
| subsidies from the State Fund for Transport Infrastructure ("SFTI") for repair and maintenance | 8,054 |
| subsidy for the railway infrastructure not paid from SFTI | 1,230 |

B. Modernization and development of the railway infrastructure

The funding of investment projects came mostly from public sources. The most significant source of investment funding in 2011 continued to be subsidies from EU funds. With respect to the railway infrastructure, SŽDC, acting as the final beneficiary and the investor, is the only entity responsible for EU fund utilization in the Czech Republic. As a successor organization, SŽDC took over the management, coordination and implementation duties from Czech Railways in implementing projects co-funded from EU funds.

OPT subsidies accounted for the largest share of funds. Other sources were obtained from the EIB, SFTI and the TEN-T Fund; in sporadic cases, small contributions were obtained from regions, cities and municipalities.

The volume of subsidies received for the preparation and implementation of investment projects related to the railway infrastructure totalled CZK 11,415 million in 2011.

Of which:

| [in millions of CZK] | |
|---|--------|
| SFTI for construction and modernization, national share, OPT, EIB | 10,831 |
| EU funds | 553 |
| Contributions from cities, municipalities, regions and other entities | 31 |

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

In compliance with the Transformation Act, as at 1 January 2003 SŽDC took over the trade receivables of the former state organization Czech Railways, of which CZK 180 million remained outstanding as at 31 December 2011. All these receivables are legally treated. They are mainly collected through bailiffs or distrainers; in some cases the debtor has signed the acknowledgment of debt and a payment schedule based on which the debt is repaid. Selected receivables are ceded; bad debts are written off.

In 2012, SŽDC will focus on resolving the remaining receivables and will continue to cede receivables, depending on the interest of potential transferees, and write-off bad debts.

As at 1 January 2003, SŽDC also assumed the current liabilities of the former state organization Czech Railways. These liabilities have already been settled. Only liabilities resulting from the payment of pensions and pension contributions to former employees and liabilities that are contested in court remain outstanding. Provisions have been created for these liabilities.

D. Bond issue

As at the date of its establishment, SŽDC assumed long-term liabilities arising from guaranteed loan agreements relating to the funding of corridors and other programmes guaranteed by the state in accordance with the Transformation Act. Based on Czech Government Resolution No. 908, dated 10 September 2003, on the liabilities and receivables of the Czech Railways, state organization, as at 31 December 2002 and the method of resolving them, SŽDC issued bonds totalling CZK 7,000 million in 2004. The proceeds from the issue covered the specified liabilities. The bonds were issued on 3 March 2004 and repaid by the Ministry of Finance in March 2011. SŽDC successfully managed this project and duly met all obligations of a securities issuer vis-à-vis the Prague Stock Exchange and the Czech National Bank, which supervises the capital market.

E. SŽDC's financial performance

SŽDC's financial performance in 2011 was positively affected by the savings resulting from internal cost-saving measures adopted for activities related to the operation and operability of the railway infrastructure, and by the savings arising from the new concept of the central management strategy and public contracts supervision adopted by SŽDC. The new concept involves establishing central management of public contracts for selected commodities at SŽDC and its organization units. This includes the centrally administered purchase of commodities, services and investments adhering to firmly set rules.

A profit of CZK 834 million was generated for the 2011 accounting period. The following items had the most significant impact on SŽDC's financial performance in 2011:

[in millions of CZK]

| | |
|---|--------------|
| Payment for track access | 4,405 |
| Subsidies from SFTI for repair and maintenance | 8,054 |
| Subsidies from SFTI for flood-related repair and maintenance | 460 |
| Subsidies for the railway infrastructure not paid from SFTI | 1,230 |
| Other subsidies | 32 |
| SŽDC debt remission as per Czech Government Resolution No. 1553 | 5,877 |
| Materials, energy consumption and services | -9,821 |
| Personnel expenses | -5,448 |
| Accounting depreciation | -4,379 |
| Net other operating revenues/expenses | 1,667 |
| Operating profit/loss | 2,077 |
| Interest expense/income | -544 |
| Exchange rate difference | -292 |
| Other financial revenues and expenses | -31 |
| Profit/loss from financial operations | -867 |
| Profit/loss before tax | 1,210 |
| Deferred tax | -376 |
| Profit/loss after tax for the accounting period | 834 |

XI. Company performance

In 2011, SŽDC's financial performance was affected by the transfer of rail service staff from ČD to SŽDC. This change had a significant impact on the structure and amount of individual cost items compared with previous years. As a result of the transfer of rail service and traffic control staff from ČD to SŽDC, SŽDC saw, among other things, an increase in its personnel expenses and, in contrast, a reduction in service expenses reported under the cost of sales. As of 1 September 2011, SŽDC performs these activities in-house (using its own employees) and thus does not have to pay ČD, which had previously provided these activities on a contractual basis.

Payment for track access represents the charge for track access by paid carriers, and is a significant revenue item for SŽDC. Payment for track access is one of SŽDC's sources used to cover expenses related to rail maintenance and railway transport organisation.

SFTI subsidies are the most important revenue and cash-generating item of SŽDC. The SFTI provides – on a contractual

basis – non-investment funds for financing repair and maintenance of the national and regional networks owned by the state and managed by SŽDC.

In 2011, a subsidy from the SFTI was provided for projects dealing with the remediation of the damage caused by floods. The subsidy was provided for the damage sustained in 2009 and 2010 and was earmarked for covering the cost of remediating the flood damage. The actual work relating to damage repairs was carried out in 2011.

Subsidies for the railway infrastructure not paid from the SFTI are contributions from the Ministry of Transport that are provided to cover expenses relating to the operation and operability of the railway infrastructure in the public interest when the income from track access charges paid by railway carriers is insufficient and SFTI subsidies cannot be used.

Other subsidies primarily comprise subsidies from the state budget for an accompanying social programme, i.e. providing funds for contributions to SŽDC's staff

when the employment is terminated due to restructuring, EU subsidies [Operational Programme Transport], and contributions from municipalities and regions.

A significant item with a substantial effect on SŽDC's revenues is the revenue resulting from the remission of SŽDC's liabilities [the so-called "debt remission"] pursuant to Czech Government Resolution No. 1553, dated 30 November 2005. The "debt remission" is implemented on a contractual basis with the Ministry of Finance and represents a book revenue item only, without any receipt of cash, i.e. with no entitlement to additional state budget funds.

The most significant expense item comprises operating expenses relating to consumption, i.e. consumption of materials, energy and services. The area of services mainly includes expenses related to ensuring the operation of the railway infrastructure – rail service [outsourced to ČD until 31 August 2011], SŽDC's own expenses related to rail service, and expenses incurred in connection with external repairs and maintenance, especially to

ensure the operability of the railway infrastructure, including expenses related to the remediation of the damage caused by floods.

SŽDC's personnel expenses include wage expenses, social security and health insurance expenses, and other social expenses. The increase in SŽDC's personnel expenses has been caused by the transfer of rail service and traffic control staff from ČD to SŽDC. Personnel expenses attributable to "live infrastructure" staff were part of SŽDC's expenses in 2011 for a period of four months, i.e. September - December.

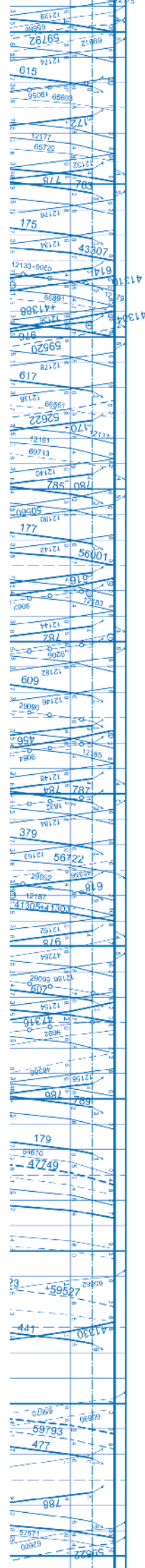
One of the significant operating expenses relates to accounting depreciation, i.e. the accounting recognition of the amortization of fixed assets in expenses.

SŽDC's net other operating revenues/expenses include other revenue and expense items, e.g. revenues from the sale of fixed assets and materials reduced by their net book value, the difference between revenues and expenses relating to the sale of electrical traction and non-traction power, revenues from external outputs and leases, own work

capitalized, revenues from salvaged materials, taxes and fees, changes in provisions and allowances, and property and liability insurance.

Interest expenses result mainly from bank loans relating to capital expenditure that were taken over from the former state organization Czech Railways, and from bonds issued by SŽDC at the nominal value of CZK 7,000 million in 2004. As specified in the notes to the financial statements, this interest is paid to the banks by the Ministry of Finance on behalf of SŽDC. Only in the case of the loan agreement signed with Česká spořitelna, a.s., intended for performance improvement projects pertaining to the railway infrastructure, does SŽDC use its own resources to pay all related expenses, including interest. Interest in respect of the bonds was paid only in the first quarter of 2011, as the bonds were repaid in March 2011.

Exchange rate differences arise from the translation of foreign currency liabilities, loans and interest at the exchange rate valid as at 31 December 2011. Given that throughout the second half of 2011 the Czech currency weakened



XI. Company performance

against the euro, in which most loans taken over from the former state organization Czech Railways were denominated, the Czech crown value of these liabilities increased and the difference was, in line with applicable regulations, recognized as an expense.

The 2011 profit/loss also includes a tax expense arising from a deferred tax liability. The items constituting deferred tax are listed in the notes to the financial statements.

F. Projected business and financial situation in 2012

SŽDC's objective is to achieve a balanced budget in close cooperation with relevant ministries

given SŽDC's reduced entitlement to state budget funds, sweeping internal cost savings and cost efficiencies. SŽDC's performance is regularly assessed and analysed in order to maintain its financial stability.

As in previous years, SŽDC's performance in 2012 will be significantly influenced by expenses related to ensuring the operation and operability of the railway infrastructure. These expenses are covered by revenues from track access charges; however, the current amount of charges collected is insufficient to cover SŽDC's expenses relating to operation, maintenance and further development. Other sources used to cover the cost of providing the operation and operability of the railway infrastructure include non-

investment subsidies from the SFTI and railway infrastructure subsidies from the Ministry of Transport. As in 2009–11, non-investment railway infrastructure subsidies from the Ministry of Transport, not paid from the SFTI, will cover the financial deficit arising from track access charges.

SŽDC's financial performance is also affected by the government-approved amount of SŽDC's liabilities to the state "debt remission", the amount of asset depreciation, and the impact of exchange rate differences arising from the translation of payments and balances of loans and interest taken over from the former state organization Czech railways.





Václav Císler

CHIEF OF SIGNALLING INSTALLATION
MAINTENANCE

1,501 staff members involved
in telecommunication and
signalling installations

8,095 level
crossings



XII. Human resources, payroll and benefits

As at 1 January 2011, SŽDC had 8,641 employees working in 21 organization units. Executive, strategic and systemic tasks are carried out by SŽDC's Directorate General. As at 1 September 2011, based on Government Resolution No. 100 dated 9 February 2011 and a follow-up contract for the sale of part of ČD's business, the traffic control function [hereinafter referred to as "rail service"] was transferred from ČD to SŽDC. As part of the transfer of rail service, the rights and responsibilities resulting from labour relations were also transferred in line with Sections 338-342 of the Labour Code. This involved 9,336 employees. During the year, headcount continued to be optimized; as at 31 December 2011, SŽDC had 17,765 employees.

In terms of remuneration in 2011, a uniform payroll system continued to be applied, resulting from SŽDC's Collective Agreement for the period 2009-13, as amended for 2011. Until the end of 2011, the 2011 Collective Agreement of Czech Railways, a.s. continued to be effective for rail service staff who were transferred from ČD, a.s. Based on collective bargaining, two amendments to the Collective

Agreement were negotiated. The fifth amendment specified conditions for the equal treatment of staff from both divisions, set the stage for eliminating the differences in providing employee benefits and remuneration as at 1 September 2011, and defined the conditions for 2012 in respect of certain provisions. The sixth amendment detailed the harmonization of conditions for other provisions of the Collective Agreement for 2012.

The main training objective was the consolidation of technical training for rail maintenance and repair staff, and the preparation and take-over of training for traffic control staff, whose extent is approximately double. Also, the psychological workplace was used to full capacity, as a psychological evaluation is a necessary requirement for most traffic control jobs. The monitoring activity focused on the provision of employee training and the professional skills of lecturers. In addition, workshops on amended and new legal regulations were organized.

Preventive medical care was provided through a contractual health-care facility. In addition to the prescribed

types of medical examinations, it also focused on checks at workplaces. As the Collective Agreement is valid for a longer period, employee benefits were made available throughout the year; e.g. the possibility to obtain employer contributions to the supplementary pension insurance and life insurance schemes. In accordance with the financial principles and the approved budget, the Cultural and Social Needs Fund was used to provide funds for meal vouchers, cultural and sports activities, including participation in international railway events, holiday packages, etc.

Health and safety activity primarily focused on eliminating the deficiencies detected during inspections or ordinary activities. There was one fatal work injury in 2011. Therefore, preventive interviews were conducted with employees, stressing the importance of observing regulations. As a precautionary measure, risks were re-assessed and jobs were re-classified at some workplaces, with a follow-up procedure in line with applicable legislation.





Táňa Císařová

GEODESIST

161 staff members involved
in railway survey service

4,511 task operations of survey
service groups



XIII. Environmental protection

The environment is the sum of all external influences that create natural conditions for the existence of human society and enable principal living conditions. The environment is thus an integral part of company management as it affects relationships with the outside world as well as the company's expenses.

Environmental protection is regulated by comprehensive national legislation, which is increasingly shaped by the adoption of European regulations. The approach to environmental protection requirements is undergoing gradual changes, which have an impact on our organization's environmental protection.

Despite the generally acknowledged environmental friendliness of railway transport, especially compared with its biggest competitor, i.e. road transport, it is necessary to continue to minimize negative impacts on the environment [noise, vibration,

dustiness, air pollution, waste production, etc.].

The main components of SŽDC's environmental protection programme, including public health protection initiatives, are as follows:

1. Waste management

As a result of the transfer of staff from ČD, i.e. upon inception of the so-called live infrastructure as at 1 September 2011, the production of waste categorized as other waste was increased, in particular mixed municipal refuse and sorted waste, such as plastic, paper and glass.

2. Water management

In 2011, there were discussions about the new obligation to submit data to the IPR [Integrated Pollution Register] pursuant to Act No. 254/2001 Coll., on Waters.

SŽDC observes respective legal regulations and takes precautionary measures to minimize potential

risks, especially in the event of an accident impacting the environment. In 2011, SŽDC recorded 48 emergency leaks caused mainly by the leakage of sealing liquids from carriers' traction units, which were eliminated with almost no impact on the environment. In recent years, there have been emergency leaks caused by thefts of fuel and precious metals from choking coils and transformers. These thefts jeopardize railway operation as well as the environment, in particular soil and ground water. Of the 48 emergency leaks recorded in 2011, eight cases were due to these thefts.

3. Air pollution protection

In 2011, SŽDC's organizational units used the Integrated System for Meeting Reporting Obligations (ISPOP) to submit summary records of air pollution sources and a statement on the calculation of charges in compliance with Section 18 of Regulation No. 205/2009 Coll., on the assessment of emissions from

Volume of waste handed over from SŽDC's production in 2009–11

| Waste handed over to authorized firms [in tonnes] | 2009 | 2010 | 2011 |
|---|---------------|---------------|---------------|
| O – other waste | 41,499 | 28,620 | 31,098 |
| N – hazardous waste | 2,867 | 1,442 | 2,532 |
| Total O + N | 44,366 | 30,062 | 33,630 |

stationary sources, and Section 19 (10) of Act No. 86/2002 Coll., on air protection for the previous year (2010).

4. Nature and landscape protection

Following the implementation of the amendment to, and the tightening of, legal regulations concerning the maintenance of surrounding vegetation [Act No. 114/1992 Coll., on nature and landscape protection], the same situation continued where any woodcutting over the prescribed limit [set by the diameter of the tree trunk] is subject to an administrative procedure regarding the application with the local nature protection authority [municipal and city authorities]. In 2011, maintenance of high vegetation [wood-/bush-cutting and pruning] was carried out in sections covering a total of 2,546 km, producing over 13 thousand tonnes of lumber.

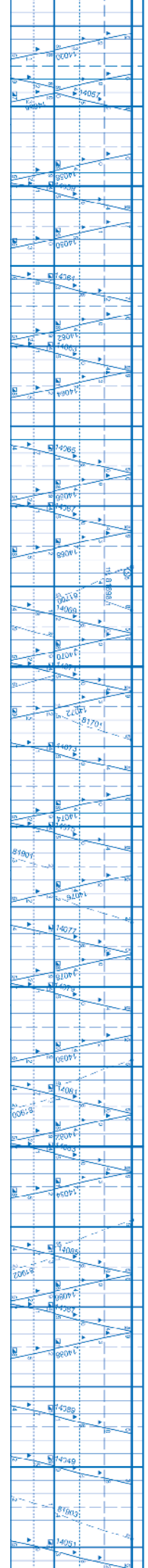
In 2011, Mendel University in Brno developed, in cooperation with SŽDC, a certified methodology entitled "Maintenance of wood vegetation in protection zones along the railway infrastructure and its implementation in practice", which shall serve SŽDC's individual organization units as a supporting document for scheduled tenders for the elimination of redundant vegetation along the railway infrastructure.

5. Noise and vibration

In November 2011, new Government Regulation No. 272/2011 Coll., on the protection of health against the adverse effects of noise and vibration, came into force. It governs the utilization of the so-called old noise burden. At the same time, SŽDC is seeking other noise protection solutions that are both effective and efficient.

As part of scheduled construction projects, especially the modernization and optimization of lines, special attention is paid to their preparation to ensure that the proposed noise/vibration reduction measure complies with applicable legislation and reflects the requirements of municipalities and cities along the lines, and, where relevant, the requirements of other stakeholders.

In 2011, as opposed to the previous year, no fine for above-the-limit noise or vibration was imposed on SŽDC, with only one exception [which, however, is in the form of a judgment of the Public Health Protection Authority that is not yet final].





Zdeněk Sábel

SECTION INSPECTOR

2,888 staff members involved in civil engineer's department

9,470 km of lines total



XIV. International relations

Thanks to its geographical location in the centre of Europe, the Czech Republic is inherently predestined for transit transportation in all major directions. SŽDC is well aware of the significance of international activity and continued to pay due attention to it in 2011. Ensuring a high-quality, fast, reliable and interoperable infrastructure is a necessary requirement for the promotion of railway (in particular, freight) transport. In line with the objectives of the European Transport Policy White Paper, formulated by the European Commission, SŽDC cooperates internationally in modernizing the most significant freight corridors and participates in the priority network system (in compliance with Regulation of the European Parliament and EU Council 913/2010 EU).

In 2011, SŽDC continued to develop cooperation both on a bilateral basis with European railway companies, especially those from the neighbouring countries, as well as with significant international railway organizations and European institutions. As of 1 September 2011, when SŽDC took over the entire traffic control, it also became a full-fledged infrastructure manager from the perspective of European legislation. This was demonstrated in the increased number of experts participating in international events.

Cooperation with international railway organizations and European institutions

International Union of Railways [UIC]

SŽDC is a full member of the International Union of Railways [hereinafter referred to as "UIC"] and, in 2011, continued to actively participate, especially in the Rail System Forum [formerly the

Infrastructure Forum], by getting involved in groups focusing on tracks, artificial structures, energy systems and electric traction. The Environmental Platform actively addressed issues related to noise and wooden sleepers, and their disposal.

SŽDC's experts continued to work on ongoing UIC projects and got involved in two new projects which commenced in 2011:

1. Assessment of Tunnels; and
2. Preparation of a new energy regulation (Electric Schemes and Signs).

Community of European Railway and Infrastructure Companies [CER]

Since its incorporation, SŽDC has been a member of the Community of European Railway and Infrastructure Companies [hereinafter referred to as "CER"]. This organization associates almost 80 railway organizations, both carriers and infrastructure managers from the EU and associated countries [Croatia, Macedonia and Turkey] as well as from the west-Balkan countries, Norway and Switzerland. CER is still considered the most influential association of railway companies in Brussels. SŽDC's experts are members of many CER working groups (Infrastructure Interest Group, Corridors, Human Resources Group, ERTMS, ETCS, and TSI Development and Related Effects on Modernization and Operation).

Association of European Infrastructure Managers [RNE]

Since its incorporation, SŽDC has been cooperating with the Association of European Infrastructure Managers [hereinafter referred to as "RNE"]. It became a full member in 2009. The association is represented by

European infrastructure managers, rail operators and path capacity allocators; a total of 38 companies from 27 European countries, which operate 230,000 km of railway lines. The main lines for transit transport have been divided into 11 RNE corridors, where conditions enabling the simplest possible relations between infrastructure managers and carriers are created. Two of these 11 RNE corridors run across the territory of the Czech Republic. The corridor manager of one of them is an SŽDC representative. RNE has permanent working groups, e.g. the Timetable Group, which coordinates the preparation of timetables, and the Network Statement Group, which creates and maintains a uniform structure of the Network Statement applicable for all members. The Legal Matters Group discusses, among other things, viewpoints of infrastructure managers concerning draft EU legislation. In this respect, the present implementation of technical specifications relating to interoperability (TAF/TAP TSI) is highly topical. New products created or operated by RNE, which are to facilitate communication with carriers, include:

- the RNE Path Coordination System (PCS), formerly entitled "Pathfinder", which is used to coordinate interstate timetables,
- RNE TIS, formerly entitled "Europtirails", designed to monitor and assess train rides,
- RNE CIS, formerly entitled "EICIS", intended for preliminary calculations of track access charges in Europe.

Organization for co-operation between railways [OSŽD]

Within the OSŽD intergovernmental organization, the Czech Republic is represented by the Ministry of Transport and ČD. SŽDC's

XIV. International relations

experts cooperate with Committee V "Infrastructure and Rail Vehicles".

SŽDC works with CEN and CENELEC on standards.

Bilateral and multilateral cooperation

SŽDC participates in working groups focusing on the development of the railway infrastructure. These were set up on the basis of intergovernmental agreements with Austria, Germany and Slovakia. One of the most important outputs will be the comprehensive improvement of the Prague–Linz connection, and the improvement of the current connection to Bavaria and Saxon is under discussion as well.

Significant achievements in 2011 also included the arrangement of

international contractual relations between SŽDC and its foreign partners. The conclusion of the Contract for the Interconnection of Infrastructures between SŽDC and ÖBB Infrastruktur AG, which was several years in the making, can be regarded as the biggest success. In addition, the Contract for the Cooperation of Rail Operators in Cross-Border Operation between SŽDC and PKP PLK S.A. and the Contract for the Interconnection of Railway Infrastructures between SŽDC and ŽSR were concluded.

In 2011, extensive amendments were made to all Local Cross-Border Agreements between SŽDC and PKP PLK S.A. and to all Local Agreements between SŽDC and ŽSR, which govern relations that arise between rail operators in connection with the interconnection of railway

infrastructures at border crossings. These are significant agreements governing the connection of the Czech railway network to the European railway system.

As part of Visegrad Group talks, meetings of directors general were organized in Slovakia, and of infrastructure specialists in Poland.





Ladislav Görtler

DRIVER



353 drivers of special guided vehicles

566 special guided vehicles



XV. Projected development

SŽDC fulfils the duties of the owner and operator of the national and regional networks owned by the state. In performing these duties, it strives to ensure that all carriers are guaranteed equal conditions of access to a safe, and technically and technologically advanced railway infrastructure that provides sufficient path capacity. It organizes railway traffic primarily so as to ensure its continuity and safety. It strives for maximum efficiency in managing the entrusted assets.

Strategic planning, on which priorities for further development are based, plays an indispensable role when it comes to SŽDC's operation. The organization's vision and related long-term and medium-term objectives have therefore been set. SŽDC wants to be a modern, flexible and customer-oriented organization ensuring the development of a functional, modern, capacity-providing and safe railway network as an integral part of the European railway system.

Last year, the transformation of the railway organizational structure was completed. The transfer of railway traffic control to SŽDC created

the so-called live infrastructure, which is essential for the continued liberalization of railway transport and guarantees non-discriminatory treatment of all parties involved. Regions and the Ministry of Transport remain the main partners, exercising a key influence on setting priorities of the railway infrastructure development. At the same time, however, SŽDC will attain a new dimension of service organization for rail transport operators. The completion of the transformation process enables utilization of synergies resulting from the possible integration of processes that have so far been managed and implemented separately.

In 2012, it is necessary to focus on the continued optimization of the company's organizational structure in order to further enhance its efficiency and ensure long-term stability. The long-term objective is to create the necessary conditions for strengthening the market position of railway transport on a national and international level, in particular by creating technical and technological conditions ensuring the dynamic development of the liberalized railway

transport market through the gradual fulfilment of interoperability standards.

The most immediate key task relating to rail modernization is to ensure utilization of EU funds allocated via the Operational Programme Transport. In close cooperation with the Ministry of Transport, projects focusing on the modernization of the railway infrastructure co-funded from EU sources during the planning period until 2014 will be implemented. The top priority will be the completion of the modernization of railway corridors and lines that are part of the European railway network. In addition to these projects, intensive preparation for the following (2014 – 2017) planning period will be in progress.

The modernization of the railway infrastructure also includes technological structures defined by European standards. This mainly involves the completion of additional construction projects relating to the implementation of GSM-R and ETCS, in compliance with the amendment to the ERTMS National Implementation Plan.



In the following period, SŽDC will continue to search for cost-saving opportunities through the modernization of signalling installations at selected lines, where rail service has so far been provided by a large number of operational staff. Our intention is to achieve the required savings with only those investments that are absolutely necessary and that are commensurate to the current extent of traffic at the respective lines.

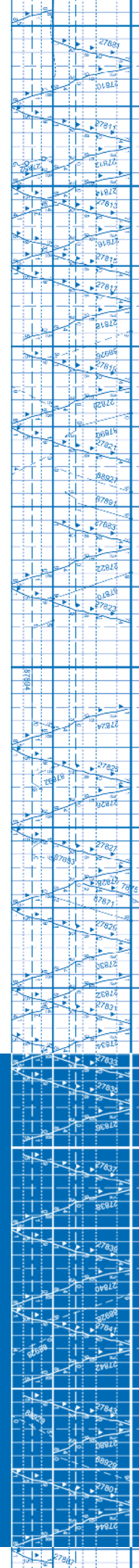
As part of the technical and technological development of the network, it will be necessary to focus on the application of key performance parameters of the TSI infrastructure on the main TEN-T network. Attention will be paid to the application of TSI Energy standards and to the fulfilment of the European Implementation Plan for the control and signalling subsystem.

The fulfilment of the above standards is the goal of the new priorities for freight transport – the so-called freight corridors, established in line with European Parliament and Council Regulation No. 913/2010 [EU]. Last year, Memoranda of

Understanding were signed among railway organizations operating in the seventh and ninth freight corridor. In this context, SŽDC will be focusing on building structures and putting these corridors into operation in line with the aforementioned regulation.

As part of its other international activities, SŽDC expects to actively support the new structure of the TEN-T network, and get involved in the process of the general revision of all TSI as part of the new EU approach. Attention will also be paid to negotiations on expanding interoperability to include lines beyond TEN-T; this topic, however, will have to be carefully approached. The above matters create conditions for the utilization of EU funds for the modernization of the railway infrastructure.

The aforementioned gradual steps lead to the fulfilment of the main strategic goal – to form a high-quality Czech railway that is attractive from the business perspective.





Stanislav Ryba

ENVIRONMENTALIST

33 specialists involved
in environmental protection

48 environmental
remediation cases



XVI. 2011 Financial part

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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the incorporator of Správa železniční dopravní cesty, státní organizace

Financial statements

On the basis of our audit, on 7 June 2012 we issued an auditor's report on the statutory financial statements of Správa železniční dopravní cesty, státní organizace ("SŽDC"), which are included in this annual report, and our report was as follows:

We have audited the accompanying financial statements of Správa železniční dopravní cesty, státní organizace, which comprise the balance sheet as of 31 December 2011, and the income statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about Správa železniční dopravní cesty, státní organizace is set out in Note 1 to these financial statements.

Statutory Body's Responsibility for the Financial Statements

The statutory body of Správa železniční dopravní cesty, státní organizace is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of 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 controls 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 controls. 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.

Obchodní rejstřík vedený
Městským soudem v Praze
oddíl C, vložka 24135.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

IČ 45619187
DIČ CZ699001996



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 assets and liabilities of Správa železniční dopravní cesty, státní organizace as of 31 December 2011, and of its expenses, revenues and net result for the year then ended in accordance with Czech accounting legislation.

Emphasis of matter

Without qualifying our opinion, we draw attention to the following facts stated in notes to the financial statements.

As stated in note 7.2 to the financial statements, Správa železniční dopravní cesty, státní organizace SŽDC provides carriers with the railway infrastructure for use in the public interest for an officially determined price which is set in compliance with Act No. 526/1990 Coll., on Pricing. The proceeds from payments for the use of the railway infrastructure are not sufficient to cover the costs spent on operation, maintenance and further development of the railway infrastructure. As such, the funding of SŽDC's operations is dependent on subsidies from the State and/or other entities. The financial statements do not include any adjustments in measurement and classification of assets or liabilities, which might be necessary if SŽDC was unable to continue as a going concern.

As stated in note 7.1 to the financial statements, for the purpose of preparation of the opening balance sheet as at 1 January 2003 it was required that the management of Správa železniční dopravní cesty, státní organizace applied, based on the Transformation Act, the general principles of division of the assets and liabilities of České dráhy, státní organizace (state organisation Czech Railways) to individual items of assets and liabilities or performed some estimates, or used certain assumptions for division of these assets and liabilities. When performing this application of the Transformation Act and determining the estimates and assumptions, the management made its best effort with the aim to ensure an appropriate and legally consistent division of the assets and liabilities. Despite this effort, alternative interpretations of certain provisions of the Transformation Act may exist and it cannot be excluded that in future some of these alternative interpretations may be considered better suitable. The alternative interpretations concern primarily tangible fixed assets and the sources of their funding.

As stated in note 7.1 to the financial statements, in compliance with Act No. 77/2002 Coll., on the Joint Stock Company Czech Railways, the State Organisation Railway Infrastructure Administration and on Amendments to Act No. 266/1994 Coll., on Railways, as amended, most liabilities of České dráhy, státní organizace were transferred to Správa železniční dopravní cesty, státní organizace as at 1 January 2003. As further stated in notes 3.16 and 4.11.3 to the financial statements, the long-term payables to banks which have been taken over from České dráhy, státní organizace (state organisation Czech Railways) are paid by the Ministry of Finance according to the instalment plans and then they are transferred to long-term payables to the State. As stated in note 4.11.1 to the financial statements, in 2004 Správa železniční dopravní cesty, státní organizace issued bonds (ISIN CZ0003501397) in the aggregate amount of CZK 7 billion. The issued bonds were paid to their holders within the term of maturity, i.e. in March 2011, by the Ministry of Finance in their total value. The payable from issued bonds was transferred to the long-term payables to the State after the payment (redemption) of the bonds.

Net financial income from operations of Správa železniční dopravní cesty, státní organizace is insufficient to cover these long-term payables and therefore the solution for their payment is subject to Resolution of the Government of the Czech Republic No. 1553 as of 30 November 2005, in which



the Government determined the manner of waiver of the payables of Správa železniční dopravní cesty, státní organizace until the moment of their redemption. In 2011, payables totalling CZK 5.88 billion (CZK 3.75 billion in 2010) were waived and this amount was recorded as a part of other operating revenues. Based on Act No. 77/2002 Coll., on Railways, the Czech Republic is liable for the liabilities of Správa železniční dopravní cesty, státní organizace.

As stated in note 7.4 to the financial statements, the useful life and economic contribution of a significant part of the existing fixed assets which form the railway infrastructure depends on availability of financial means and on future decisions on renovation, modernisation, rationalisation and use of railway infrastructure and on the prices set for its use. Due to the existing uncertainty regarding the above mentioned issues it is not possible to determine the final useful life and economic contribution of the existing fixed assets and therefore no relevant adjustments were made to the valuation in the financial statements.

As stated in note 4.2.1 to the financial statements, Správa železniční dopravní cesty, státní organizace recognised assets of CZK 3.87 billion in tangible fixed assets under construction. This item also includes tangible fixed assets under construction acquired from subsidies of CZK 3.75 billion. After having received subsidies and made payments to suppliers, in the following accounting period the acquisition cost of the assets under construction will be reduced by the subsidies and these assets will be recognised in off-balance sheet accounts. Správa železniční dopravní cesty, státní organizace did not account for the entitlement to subsidies to tangible fixed assets under construction as at the balance sheet date as making the payments to suppliers is one of the conditions upon the fulfilment of which the entitlement to subsidies become unquestionable. The total acquisition cost of tangible fixed assets recorded in the off-balance sheet was CZK 141.19 billion as at 31 December 2011.

As stated in note 4.2.6 to the financial statements, Správa železniční dopravní cesty, státní organizace recognised in Tangible fixed assets assets acquired free of charge totalling CZK 635 million (net book value – CZK 599 million), which are depreciated using the depreciation plan of the accounting unit. These assets were reciprocally recorded to Capital contributions. The acquisition cost of the assets acquired free of charge is derived from the contractual agreement without information on sources of funding of the assets acquired free of charge from the transferor. In the financial statements of the organisation, these tangible fixed assets are recognised in accordance with the contractual agreement.”



Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of the SŽDC's statutory body. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague, on 7 June 2012

KPMG Česká republika Audit
KPMG Česká republika Audit, s.r.o.
Licence number 71


Pavel Závitkovský
Partner
Licence number 69

Financial Statements

BALANCE SHEET in full format as at 31 December 2011 (in thousands of Czech crowns „TCZK“)

| Ident. | ASSETS | line | 2011 | | | 2010 |
|-----------|---|------------|--------------------|--------------------|-------------------|-------------------|
| | | | Gross | Adjust. | Net | Net |
| a | b | c | 1 | 2 | 3 | 4 |
| | TOTAL ASSETS (L.02+03+31+63) | 001 | 179,951,075 | -93,580,297 | 86,370,778 | 91,393,837 |
| A. | Receivables for subscribed registered capital | 002 | | | | |
| B. | Fixed assets (L.04+13+23) | 003 | 174,741,975 | -92,981,514 | 81,760,461 | 85,745,131 |
| B.I. | Intangible fixed assets (L.05 to 12) | 004 | 321,248 | -202,209 | 119,039 | 93,978 |
| B.I.1. | Incorporation expenses | 005 | | | | |
| | 2. Research and development | 006 | | | | |
| | 3. Software | 007 | 299,066 | -200,466 | 98,600 | 92,368 |
| | 4. Intellectual property rights | 008 | | | | |
| | 5. Goodwill | 009 | | | | |
| | 6. Other intangible fixed assets | 010 | 3,312 | -1,743 | 1,569 | 1,601 |
| | 7. Intangible fixed assets under construction | 011 | 18,865 | | 18,865 | |
| | 8. Advance payments for intangible fixed assets | 012 | 5 | | 5 | 9 |
| B.II. | Tangible fixed assets (L.14 to 22) | 013 | 174,420,727 | -92,779,305 | 81,641,422 | 85,651,153 |
| B.II.1. | Land | 014 | 6,562,936 | -38,724 | 6,524,212 | 6,488,091 |
| | 2. Buildings | 015 | 135,211,294 | -77,666,381 | 57,544,913 | 59,947,815 |
| | 3. Plant and equipment | 016 | 20,341,386 | -13,091,757 | 7,249,629 | 8,113,930 |
| | 4. Cultivated areas | 017 | | | | |
| | 5. Adult livestock | 018 | | | | |
| | 6. Other tangible fixed assets | 019 | 516 | | 516 | |
| | 7. Tangible fixed assets under construction | 020 | 3,871,251 | -114,153 | 3,757,098 | 4,220,198 |
| | 8. Advance payments for tangible fixed assets | 021 | 70,698 | | 70,698 | 10,968 |
| | 9. Adjustments to acquired fixed assets | 022 | 8,362,646 | -1,868,290 | 6,494,356 | 6,870,151 |
| B.III. | Long-term investments (L.24 to 30) | 023 | | | | |
| B.III.1. | Investments in group undertakings | 024 | | | | |
| | 2. Investments in associated companies | 025 | | | | |
| | 3. Other long-term securities and ownership interests | 026 | | | | |
| | 4. Loans - group undertakings, associated companies | 027 | | | | |
| | 5. Other long-term investments | 028 | | | | |
| | 6. Long-term investments (provisional value) | 029 | | | | |
| | 7. Advance payments for long-term investments | 030 | | | | |
| C. | Current assets (L.32+39+48+58) | 031 | 5,189,651 | -598,783 | 4,590,868 | 5,643,404 |
| C.I. | Inventories (L.33 to 38) | 032 | 335,032 | -95 | 334,937 | 283,888 |
| C.I.1. | Raw materials | 033 | 334,268 | -95 | 334,173 | 283,060 |
| | 2. Work-in-progress and semi-finished products | 034 | 744 | | 744 | 815 |
| | 3. Finished goods | 035 | | | | |
| | 4. Young and other livestock | 036 | | | | |
| | 5. Goods for resale | 037 | 12 | | 12 | 13 |
| | 6. Advance payments for inventories | 038 | 8 | | 8 | |

| Ident. | ASSETS | line | 2011 | | 2010 | |
|-------------|---|------------|---------------|----------|---------------|--------------|
| | | | Gross | Adjust. | Net | Net |
| a | b | c | 1 | 2 | 3 | 4 |
| C.II. | Long-term receivables (L.40 to 47) | 039 | 8,986 | | 8,986 | 56,637 |
| C.II.1. | Trade receivables | 040 | 7,770 | | 7,770 | 55,398 |
| | 2. Receivables - group undertakings | 041 | | | | |
| | 3. Receivables - associated companies | 042 | | | | |
| | 4. Receivables from shareholders/owners and alliance partners | 043 | | | | |
| | 5. Long-term advances paid | 044 | 1,216 | | 1,216 | 1,239 |
| | 6. Estimated receivables | 045 | | | | |
| | 7. Other receivables | 046 | | | | |
| | 8. Deferred tax asset | 047 | | | | |
| C.III. | Short-term receivables (L.49 to 57) | 048 | 3,639,386 | -598,688 | 3,040,698 | 3,915,090 |
| C.III.1. | Trade receivables | 049 | 2,075,576 | -518,666 | 1,556,910 | 1,945,195 |
| | 2. Receivables - group undertakings | 050 | | | | |
| | 3. Receivables - associated companies | 051 | | | | |
| | 4. Receivables from shareholders/owners and alliance partners | 052 | | | | |
| | 5. Social security and health insurance | 053 | | | | |
| | 6. Tax receivables | 054 | 1,029,852 | | 1,029,852 | 644,966 |
| | 7. Short-term advances paid | 055 | 137,296 | | 137,296 | 124,059 |
| | 8. Estimated receivables | 056 | 277,632 | -977 | 276,655 | 1,134,845 |
| | 9. Other receivables | 057 | 119,030 | -79,045 | 39,985 | 66,025 |
| C.IV. | Short-term financial assets (L.59 to 62) | 058 | 1,206,247 | | 1,206,247 | 1,387,789 |
| C.IV.1. | Cash | 059 | 3,080 | | 3,080 | 3,810 |
| | 2. Bank accounts | 060 | 1,203,167 | | 1,203,167 | 1,383,979 |
| | 3. Short-term securities and ownership interests | 061 | | | | |
| | 4. Short-term investments (provisional value) | 062 | | | | |
| D.I. | Deferrals (L. 64+65+66) | 063 | 19,449 | | 19,449 | 5,302 |
| D.I.1. | Prepaid expenses | 064 | 18,675 | | 18,675 | 3,666 |
| | 2. Complex prepaid expenses | 065 | | | | |
| | 3. Accrued revenues | 066 | 774 | | 774 | 1,636 |

Financial Statements

| Ident. | LIABILITIES | line | 2011 | 2010 |
|-------------|---|------------|-------------------|-------------------|
| a | b | c | 5 | 6 |
| | TOTAL LIABILITIES AND EQUITY (L.68+86+119) | 067 | 86,370,778 | 91,393,837 |
| A. | Equity (L.69+73+79+82+85) | 068 | 58,950,079 | 58,111,595 |
| A.I. | Registered capital (L.70+71+72) | 069 | 52,777,172 | 52,741,957 |
| A.I.1. | Registered capital | 070 | 52,777,172 | 52,741,957 |
| 2. | Own shares and ownership interests (-) | 071 | | |
| 3. | Changes in registered capital | 072 | | |
| A.II. | Capital contributions (L.74 to 78) | 073 | 943,632 | 906,091 |
| A.II.1. | Share premium | 074 | | |
| 2. | Other capital contributions | 075 | 943,632 | 906,091 |
| 3. | Revaluation of assets and liabilities | 076 | | |
| 4. | Revaluation reserve on transformations | 077 | | |
| 5. | Differences resulting from transformations | 078 | | |
| A.III. | Reserve funds, undistributable fund and other funds from profit (L.80+81) | 079 | 938,102 | 1,005,997 |
| A.III.1. | Statutory reserve fund / Undistributable fund | 080 | 913,087 | 973,638 |
| 2. | Statutory and other funds | 081 | 25,015 | 32,359 |
| A.IV. | Retained earnings (L.83+84) | 082 | 3,457,548 | 4,961,537 |
| A.IV.1. | Retained profits | 083 | 3,457,548 | 4,961,537 |
| 2. | Accumulated losses | 084 | | |
| A.V. | Profit (loss) for the current period (+/-) | 085 | 833,625 | -1,503,987 |
| B. | Liabilities (L.87+92+103+115) | 086 | 27,308,578 | 32,912,032 |
| B.I. | Provisions (L.88 to 91) | 087 | 1,166,233 | 1,143,977 |
| B.I.1. | Tax-deductible provisions | 088 | | |
| 2. | Provision for pensions and other similar payables | 089 | | |
| 3. | Income tax provision | 090 | | |
| 4. | Other provisions | 091 | 1,166,233 | 1,143,977 |
| B.II. | Long-term liabilities (L.93 to 102) | 092 | 9,760,274 | 13,516,650 |
| B.II.1. | Trade payables | 093 | 1,377,410 | 2,223,940 |
| 2. | Liabilities - group undertakings | 094 | | |
| 3. | Liabilities - associated companies | 095 | | |
| 4. | Liabilities to shareholders/owners and alliance partners | 096 | | |
| 5. | Long-term advances received | 097 | | |
| 6. | Debentures and bonds issued | 098 | | 7,000,000 |
| 7. | Long-term bills of exchange payable | 099 | | |
| 8. | Estimated payables | 100 | | |
| 9. | Other payables | 101 | 4,934,328 | 1,220,614 |
| 10. | Deferred tax liability | 102 | 3,448,536 | 3,072,096 |

| Ident. | LIABILITIES | line | 2011 | 2010 |
|---------------|--|-------------|----------------|----------------|
| a | b | c | 5 | 6 |
| B.III. | Short-term liabilities (L.104 to 114) | 103 | 5,320,765 | 5,560,694 |
| B.III.1. | Trade payables | 104 | 3,328,269 | 3,088,589 |
| 2. | Liabilities - group undertakings | 105 | | |
| 3. | Liabilities - associated companies | 106 | | |
| 4. | Liabilities to shareholders/owners and alliance partners | 107 | | |
| 5. | Payables to employees | 108 | 460,752 | 254,893 |
| 6. | Payables to social security and health insurance | 109 | 237,568 | 118,290 |
| 7. | Tax liabilities and subsidies | 110 | 765,159 | 1,651,105 |
| 8. | Short-term advances received | 111 | 119,821 | 103,110 |
| 9. | Debentures and bonds issued | 112 | | |
| 10. | Estimated payables | 113 | 352,351 | 282,268 |
| 11. | Other payables | 114 | 56,845 | 62,439 |
| B.IV. | Bank loans and overdrafts (L.116+117+118) | 115 | 11,061,306 | 12,690,711 |
| B.IV.1. | Long-term bank loans | 116 | 10,134,019 | 11,821,600 |
| 2. | Short-term bank loans | 117 | 927,287 | 869,111 |
| 3. | Short-term financial liabilities | 118 | | |
| C.I. | Accruals (L.120+121) | 119 | 112,121 | 370,210 |
| C.I.1. | Accrued expenses | 120 | 25,783 | 281,463 |
| 2. | Deferred revenues | 121 | 86,338 | 88,747 |

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PROFIT AND LOSS ACCOUNT classification by nature for the year ended 31 December 2011 (in thousands of Czech crowns „TCZK“)

| Ident. | TEXT | Line | Accounting period | |
|----------|--|-----------|-------------------|-------------------|
| | | | 2011 | 2010 |
| a | b | c | 1 | 2 |
| I. | Revenue from goods | 01 | 2 | 4 |
| A. | Cost of goods sold | 02 | 1 | 3 |
| + | Gross profit (L.01-02) | 03 | 1 | 1 |
| II. | Revenue from production (L.05+06+07) | 04 | 7,082,824 | 6,995,023 |
| II.1. | Revenue from own products and services | 05 | 6,823,623 | 6,712,790 |
| II.2. | Change in inventory of own production | 06 | -71 | -34 |
| II.3. | Own work capitalized | 07 | 259,272 | 282,267 |
| B. | Cost of sales (L.09+10) | 08 | 11,185,426 | 12,656,238 |
| B.1. | Materials and consumables | 09 | 2,645,711 | 2,250,146 |
| B.2. | Services | 10 | 8,539,715 | 10,406,092 |
| + | Added value (L.03+04-08) | 11 | -4,102,601 | -5,661,214 |
| C. | Personnel expenses (L.13 to 16) | 12 | 5,448,251 | 4,621,834 |
| C.1. | Wages and salaries | 13 | 3,877,563 | 3,329,101 |
| C.2. | Remuneration of board members | 14 | 1,218 | 1,698 |
| C.3. | Social security and health insurance expenses | 15 | 1,286,312 | 1,065,619 |
| C.4. | Social expenses | 16 | 283,158 | 225,416 |
| D. | Taxes and charges | 17 | 34,934 | 40,321 |
| E. | Depreciation of intangible and tangible fixed assets | 18 | 4,378,962 | 4,552,810 |
| III. | Proceeds from disposals of fixed assets and raw material (L.20+21) | 19 | 291,746 | 156,859 |
| III.1. | Proceeds from disposals of fixed assets | 20 | 70,728 | 30,478 |
| III.2. | Proceeds from disposals of raw material | 21 | 221,018 | 126,381 |
| F. | Net book value of fixed assets and raw material sold (L.23+24) | 22 | 231,331 | 182,105 |
| F.1. | Net book value of fixed assets sold | 23 | 12,366 | 88,008 |
| F.2. | Raw materials sold | 24 | 218,965 | 94,097 |
| G. | Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses | 25 | 679 | 765,778 |
| IV. | Other operating revenues | 26 | 16,108,028 | 14,457,449 |
| H. | Other operating expenses | 27 | 125,529 | 108,505 |
| V. | Transfer of operating revenues | 28 | | |
| I. | Transfer of operating expenses | 29 | | |
| * | Operating profit (loss) (L.11-12-17-18+19-22-25+26-27+28-29) | 30 | 2,077,487 | -1,318,259 |
| VI. | Proceeds from sale of securities and ownership interests | 31 | | |
| J. | Securities and ownership interests sold | 32 | | |
| VII. | Revenue from long-term investments (L.34+35+36) | 33 | | |
| VII.1. | Revenue from investments in group undertakings and associated companies | 34 | | |
| VII.2. | Revenue from other long-term securities and ownership interests | 35 | | |
| VII.3. | Revenue from other long-term investments | 36 | | |
| VIII. | Revenue from short-term financial investments | 37 | 70 | 307 |

| Ident. | TEXT | Line | Accounting period | |
|-------------|--|-----------|-------------------|-------------------|
| | | | 2011 | 2010 |
| a | b | c | 1 | 2 |
| K. | Financial assets expenses | 38 | | |
| IX. | Revenue from revaluation of securities and derivatives | 39 | | |
| L. | Expenses for revaluation of securities and derivatives | 40 | | |
| M. | Change in provisions and adjustments relating to financial activity | 41 | | |
| X. | Interest revenue | 42 | 5,523 | 7,985 |
| N. | Interest expense | 43 | 549,986 | 912,577 |
| XI. | Other financial revenues | 44 | 38,967 | 608,614 |
| O. | Other financial expenses | 45 | 361,992 | 219,024 |
| XII. | Transfer of financial revenues | 46 | | |
| P. | Transfer of financial expenses | 47 | | |
| * | Profit (loss) from financial operations (L.31-32+33+37-38+39-40+41+42-43+44-45+46-47) | 48 | -867,418 | -514,695 |
| Q. | Income tax on ordinary profit (loss) (L.50+51) | 49 | 376,439 | -330,594 |
| Q.1. | - current | 50 | | |
| Q.2. | - deferred | 51 | 376,439 | -330,594 |
| ** | Profit (loss) on ordinary activities after tax (L.30+48-49) | 52 | 833,630 | -1,502,360 |
| XIII. | Extraordinary revenue | 53 | | |
| R. | Extraordinary expenses | 54 | 5 | 1,627 |
| S. | Income tax on extraordinary profit (loss) (L.56+57) | 55 | | |
| S.1. | - current | 56 | | |
| S.2. | - deferred | 57 | | |
| * | Extraordinary profit (loss) (L.53-54-55) | 58 | -5 | -1,627 |
| T. | Transfer of profit or loss to partners | 59 | | |
| *** | Profit (loss) for the accounting period (L.52+58-59) | 60 | 833,625 | -1,503,987 |
| **** | Profit (loss) before tax (L.30+48+53-54) | 61 | 1,210,064 | -1,834,581 |

Financial Statements

Notes to the financial statements for the year ended 31 december 2011

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| | | |
|-----------|---|-----------|
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Financial Statements

1. GENERAL INFORMATION

1.1. Background Information

SŽDC, 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, s.o.").

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

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

The institutor of SŽDC is the Czech Republic (the Ministry of Transport of the Czech Republic being charged to exercise the function of founder). The governing body in matters of settling legal remedies against SŽDC's decisions is the Ministry of Transport of the Czech Republic.

The reporting period is the calendar year.

The financial statements have been prepared for the accounting period starting 1 January 2011 and ending 31 December 2011.

1.2. Principal Operations

SŽDC principally engages in operating the railway infrastructure and securing its operability, maintenance, modernisation and development in accordance with the Transformation Act. The operability of the railway infrastructure in 2011 was ensured by SŽDC's internal capacities. Only the railway infrastructure operation, i.e. traffic control at stations and railway tracks, was ensured by České dráhy, a.s. (hereinafter "ČD" or "ČD, a.s."), the contractual operator of the railway infrastructure, for SŽDC up to 31 August 2011. The costs incurred as a result of these activities were billed to SŽDC. From 1 September 2011 these activities were transferred to SŽDC and are ensured now in full by its own employees.

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

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

After complying with all the conditions arising from Energy 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.

Pursuant to the amendment to the Transformation Act, 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.

Based on a resolution of the Government of the Czech Republic, activities concerning traffic control were transferred to SŽDC as of 1 September 2011 and are ensured now in full by SŽDC's employees.

1.3. SŽDC's Organisational Structure and Bodies

SŽDC is a standalone state organisation which does not hold any equity investments in any other businesses. Pursuant to the Transformation Act, the Ministry of Transport of the Czech Republic is exercising the function of founder of SŽDC, of České dráhy, a.s. as well. SŽDC has many contractual relations with ČD and its subsidiaries, the most important of which are discussed in Note 7.3. SŽDC's statutory bodies include the Management Board, the Director General and the Audit Committee.

From 1 October 2010 to 19 April 2012, the Deputy Director General for Auditing, Mr. Pavel Habarta, was charged with managing activities and acting on behalf of SŽDC (1st Deputy Director General). In his absence he was deputised by Mr. Bohuslav Navrátil (2nd Deputy Director General; function ended on 19 April 2012). As of 31 December 2011 these Deputies Director General were also statutory bodies of SŽDC.

The Director General acts and signs in full extent on behalf of the Company independently. In the absence of the Director General, a Deputy Director General acts and signs in full extent, respectively in the order specified in the Register of Companies.

During periods when the position of Director General is temporarily unoccupied, his functions are exercised by his Deputy charged by the Management Board with managing the Company together with a Deputy Director General, while at least one of the acting persons must be professionally qualified pursuant to Section 14 of Act No 266/1994, on Rail Systems, as amended.

The members of the Company management as of 31 December 2011 were as follows:

| Name | Position |
|-------------------|---|
| Unoccupied | Director General |
| Pavel Habarta | 1st Deputy Director General, Executive Director |
| Bohuslav Navrátil | 2nd Deputy Director General |
| Jaromír Kadlec | Deputy Director General for Rail Operation |
| Vojtěch Kocourek | Deputy Director General for Rail Operability |
| Jiří Martínek | Deputy Director General for Rail Modernization |
| Vladimír Filip | Deputy Director General for Economy |

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The members of the Management Board as of 31 December 2011 were as follows:

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

The members of the Audit Committee as of 31 December 2011 were as follows:

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

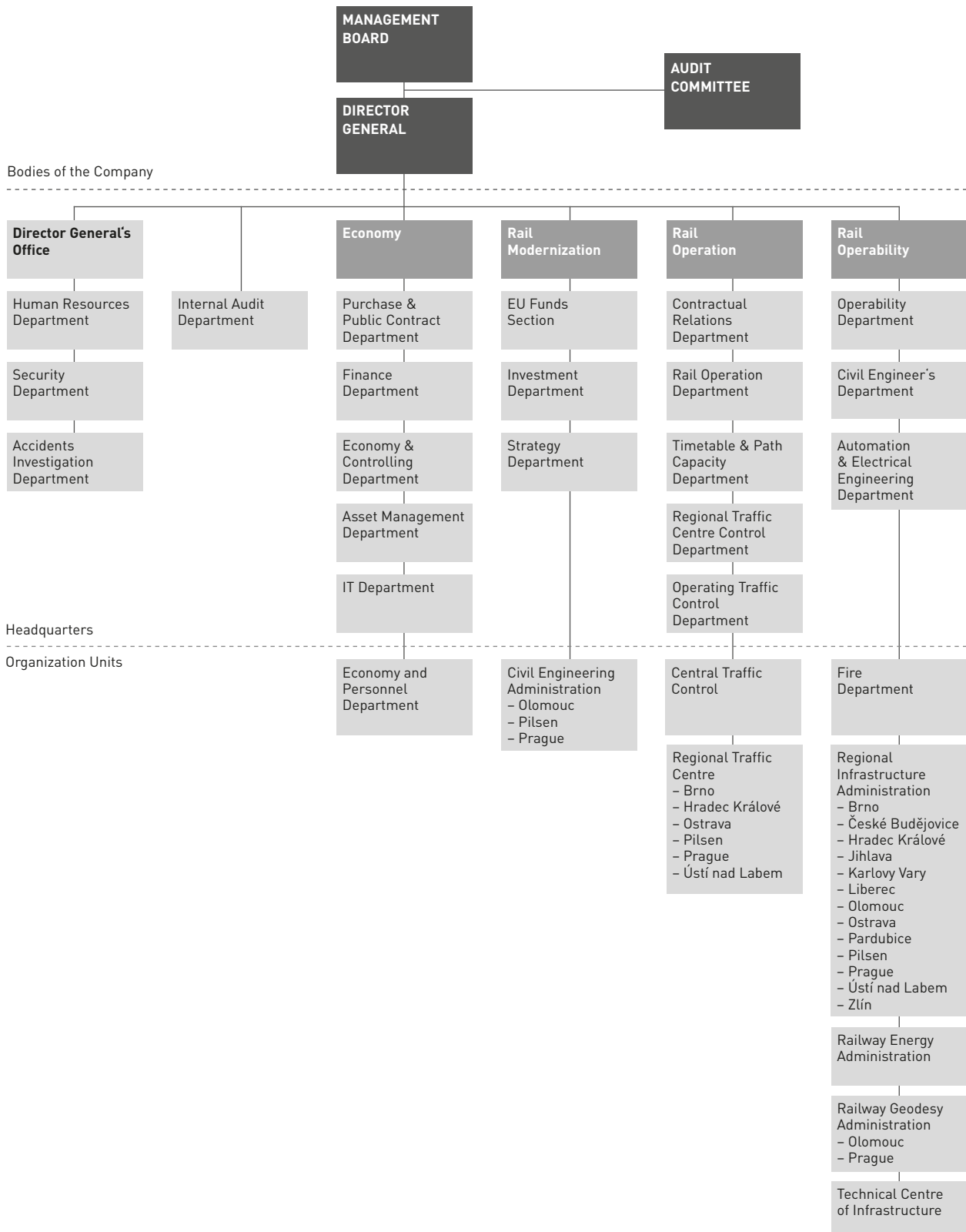
Changes of organisational structure as of the balance sheet date are discussed in Note 8.

1.4. Changes in the Register of Companies

In 2011 no changes occurred that would require a record in the Register of Companies.

1.5. SŽDC's Organisational structure

The following chart shows the organisational structure of SŽDC as of 31 December 2011:



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2. ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Tangible and Intangible Fixed Assets

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

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

Purchased 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 sub-ledger 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 (e.g. assets acquired through the purchase of a part of a business). Established easements on property of other parties are being registered as intangible fixed assets, the acquisition costs notwithstanding.

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

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

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

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

depreciates its tangible fixed assets related to the railway infrastructure in accordance with the amended version of the Transformation Act.

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 part of a business on 1 July 2008 and 1 September 2011 were valued by a court-appointed expert and included in the asset registry of the Company at the net book values reported by 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.

On the purchase of a part of a business on 1 September 2011, inventory increased by uniforms and other gear, which are now kept in uniform and gear stores. This inventory, including operating inventory at newly established organisational units, has been taken over at its original acquisition costs.

Low value tangible assets (including IT equipment) are maintained in the underlying sub-ledger records and are kept at cost in which they were released for consumption.

Purchased inventory is carried at cost, which includes the purchase price and other costs associated with the acquisition.

The acquired material is carried at replacement cost.

Provisions to inventory are created based on suggestions of the individual inventory count committees, which determine the amount of unused or damaged inventory during inventory-taking. Provisions are created either in the amount of carrying value of inventories designated for liquidation or, for inventories for sale, in the amount of the difference between the carrying value and the selling price less costs to sell where the selling price is lower than the current carrying value.

Acquisitions and dispatches of inventory are accounted for using method A.

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. 593/1992 Coll. Accounting provisions were recognised against receivables past their due dates:

- Full provisions against receivables assumed from ČD, s.o.;
- Full provisions against other receivables maturing before 30 June 2011, except for part of receivables arising from the compensation of damage relating to ČD Cargo, a.s. (refer to Note 4.10.); and
- Full provisions against receivables arising from arrears in payments of traction energy due after 1 July 2011.

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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 these 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.

On 1 July 2004, the assets specified in the Appendix to the Transformation Act transferred from the Ministry of Transport to SŽDC were accounted for against the share capital account. In addition, a subsidy granted by the Ministry of Transport to purchase a part of business from ČD on 1 July 2008 was also 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, free-of-charge transfers of assets, privatisation (refer to Note 3.17), corrections of accounting errors in the register of land newly established as a result of the plot map at the beginning and at the end of railway stations as part of the transformation of ČD, s.o. in accordance with the Transformation Act, or in respect of additional refinements made to the scope and value of assets and liabilities taken over by SŽDC on 1 January 2003.

SŽDC contributes to the statutory reserve fund when it generates profit.

SŽDC contributes to the cultural and social needs fund in accordance with Regulation No. 310/1995 Coll., on Cultural and Social Needs Fund, as amended, by complying with Section 16 of Regulation No 114/2002 Coll., on Cultural and Social Needs Fund. In 2011, 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 paid to former employees of ČD, s.o., damages, and restructuring.

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 paid to former employees of ČD, s.o. is established based on a statistical analysis of available historical information in the amount equalling the present value of estimated future payments arising from claims originating until the balance sheet date. The reserve is reassessed at the balance sheet date.

The reserve for damages is recognised based on the legal opinion on recognised damages.

The reserve for restructuring relates to the organisational change of 1 January 2012 which was announced in 2011. The reserve represents the amount of compensation paid to employees affected by the reorganisation from 1 January 2012 until 31 March 2012.

3.8. Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the fixed Czech National Bank's exchange rate ruling as of the first day of the month. In the event of a purchase or sale of a foreign currency for the Czech currency, the foreign exchange rate applied by bank making the transaction is used. When accounting for foreign travel expenses, the Czech National Bank rate of exchange ruling on the date an advance is provided to an employee is used.

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

Any resulting foreign exchange gains and losses are credited to other financial revenues or debited to other financial expenses as appropriate.

SŽDC does not use 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 effective as of 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 to the profit and loss account, except when it relates to items directly reported in 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.

Trading 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.

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

Valuing of financial derivatives is being influenced by interest rates on the inter-bank market.

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.

Up to the moment of receiving the grant, the Company registers assets under construction. After receiving the grants and executing payments to suppliers, grants are subtracted from the acquisition cost of assets under construction and these assets are further recorded off balance sheet. The Company does not record a claim to the grants as of the balance sheet date, because executing payments to suppliers are one of the conditions for an undisputable status of the claim to the grants

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

3.12. Revenue Recognition

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

In addition to non-investment grants, 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 Regulatory 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

No significant expense or revenue from extraordinary activities arose in 2011. No significant corrections to be made to prior accounting periods occurred in 2011 when considering the Company's day-to-day activities.

3.15. Changes in Accounting Policies

No changes were made in accounting policies in the year ended 31 December 2011.

3.16. 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 accordance with the Transformation Act. The debt service for all loan contracts is secured by the Ministry of Finance.

In 2004 SŽDC issued bonds (ISIN CZ0003501397) totalling CZK 7 billion. Issued bonds were redeemed by the Ministry of Finance within their due date, i.e. in March 2011.

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 incurred for operating, maintaining and developing the railway infrastructure. As a result, SŽDC does not generate available sources of funding which could be used to settle its payables to the State budget. Reflecting these facts, on 30 November 2005 the Government adopted Resolution No. 1553 (the "Government Resolution") whereby it set out the approach to forgiving SŽDC's payables until they are fully settled. The Government Resolution states that "subject to compliance with the outlined approach to dealing with SŽDC's payables, this organisation is considered to be clear of debts".

The discharge of the debt itself occurs (and is recognised in the books) on the basis of the "Contract to Forgive Debt" in the light 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.

3.17. Privatisation

Under the Transformation Act, SŽDC took over assets from the Ministry of Transport on 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 were 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 2011, the Ministry of Finance carried out the privatisation of SŽDC's assets in the form of third party sales. Based on contracts, funds acquired as a result of the privatisation are subsequently transferred from the Ministry of Finance to SŽDC. When received, the funding will be reported as other operating income – details can be found in Note 7.5

3.18. 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 Management Board and subsequently by the Czech Ministry of Transport.

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

4.1. Intangible Fixed Assets

| | Valuable rights | Other intangible assets | Intangible assets under construction | Prepayments | Software | Total |
|--|-----------------|-------------------------|--------------------------------------|-------------|---------------|----------------|
| Acquisition cost | | | | | | |
| Balance as of 1 January 2011 | -- | 2,654 | -- | 9 | 228,945 | 231,608 |
| Additions | -- | 678 | 18,865 | -- | 70,121 | 89,664 |
| Disposals | -- | -20 | -- | -4 | -- | -24 |
| Transfers | -- | -- | -- | -- | -- | -- |
| Balance as of 31 December 2011 | -- | 3,312 | 18,865 | 5 | 299,066 | 321,248 |
| Accumulated depreciation | | | | | | |
| Balance as of 1 January 2011 | -- | 1,053 | -- | -- | 136,577 | 137,630 |
| Depreciation expense | -- | 692 | -- | -- | 63,889 | 64,581 |
| Disposals | -- | -2 | -- | -- | -- | -2 |
| Transfers | -- | -- | -- | -- | -- | -- |
| Balance as of 31 December 2011 | -- | 1,743 | -- | -- | 200,466 | 202,209 |
| Net book value as of 1 January 2011 | -- | 1,601 | -- | 9 | 92,368 | 93,978 |
| Net book value as of 31 December 2011 | -- | 1,569 | 18,865 | 5 | 98,600 | 119,039 |

The increase in intangible fixed assets predominantly relates to the acquisition of other software modules.

4.2. Tangible Fixed Assets

4.2.1. Analysis of Movements of Assets

| | Land | Construc- tions | Machines and equip- ment | Motor vehicles | Valuation diffe- rence to acquired assets | Tangible assets under con- struction | Works of art | Prepay- ments | Total |
|---|------------------|--------------------|--------------------------------|-------------------|---|---|-----------------|------------------|-------------------|
| Acquisition cost | | | | | | | | | |
| Balance as of 1 January 2011 | 6,529,065 | 135,068,116 | 19,673,245 | 699,632 | 8,189,584 | 4,334,814 | -- | 10,968 | 174,505,424 |
| Additions | 76,725 | 325,830 | 31,479 | 19,105 | 173,062 | 981,379 | 516 | 64,708 | 1,672,804 |
| Disposals | -42,854 | -350,021 | -109,619 | -1,345 | -- | -1,248,684 | -- | -4,978 | -1,757,501 |
| Transfers | -- | 167,369 | 27,169 | 1,720 | -- | -196,258 | -- | -- | -- |
| Balance as of 31 December 2011 | 6,562,936 | 135,211,294 | 19,622,274 | 719,112 | 8,362,646 | 3,871,251 | 516 | 70,698 | 174,420,727 |
| Accumulated depreciation | | | | | | | | | |
| Balance as of 1 January 2011 | -- | 74,971,296 | 11,974,385 | 275,277 | 1,319,433 | -- | -- | -- | 88,540,391 |
| Depreciation expense ¹ | -- | 2,828,611 | 857,326 | 79,587 | 548,857 | -- | -- | -- | 4,314,381 |
| Accumulated depreciation to additions ² | -- | 51,552 | 331 | -- | -- | -- | -- | -- | 51,883 |
| Accumulated depreciation to disposals | -- | -311,359 | -102,837 | -1,114 | -- | -- | -- | -- | - 415,310 |
| Transfers | -- | 112 | -229 | 117 | -- | -- | -- | -- | -- |
| Balance as of 31 December 2011 | -- | 77,540,212 | 12,728,976 | 353,867 | 1,868,290 | -- | -- | -- | 92,491,345 |
| Provisions | | | | | | | | | |
| Balance as of 1 January 2011 | 40,974 | 149,005 | 8,919 | 366 | -- | 114,616 | -- | -- | 313,880 |
| Change in provisions | -2,250 | -22,836 | -2,322 | 1,951 | -- | -463 | -- | -- | -25,920 |
| Balance as of 31 December 2011 | 38,724 | 126,169 | 6,597 | 2,317 | -- | 114,153 | -- | -- | 287,960 |
| Net book value as of 1 January 2011 | 6,488,091 | 59,947,815 | 7,689,941 | 423,989 | 6,870,151 | 4,220,198 | -- | 10,968 | 85,651,153 |
| Net book value as of 31 December 2011 | 6,524,212 | 57,544,913 | 6,886,701 | 362,928 | 6,494,356 | 3,757,098 | 516 | 70,698 | 81,641,422 |

1) Depreciation expense" includes depreciation in accounts 551/*, 553/1000 and 557/1000 in compliance with the profit and loss account.

2) Accumulated depreciation to additions" includes accumulated depreciation to inventory-take findings.

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The most important additions to tangible assets in 2011 include the purchase of a building and a plot of land in Křižíkova Street in Prague for a price of CZK 152,950 thousand, free-of-charge asset transfers in the value of CZK 99,897 thousand (e.g. the inundation bridge taken over from Povodí Moravy), the valuation difference of CZK 173,062 thousand resulting from a purchase of the Rail Servicing part of a business, and inventory-take findings with an acquisition cost of CZK 54,689 thousand (the Valtice apprentice training centre).

The most important tangible asset disposals in 2011 were the liquidation of assets for reasons of new constructions related to the modernisation of railway corridors with an acquisition cost of CZK 376, 469 thousand and the transfer to the Land Fund with an acquisition cost of CZK 30,930 thousand.

The opening balance of the valuation difference on acquired assets arose in 2008 as a result of the purchase of a part of a business – the railway operator function. The addition in 2011 consists of the valuation difference arising as a result of the purchase of the Rail Servicing part of a business of CZK 173,062 thousand.

The balance of assets under construction mainly includes costs associated with the construction of rail corridors (as described in Note 6.2) and costs associated with the construction works to modernise and renovate the railway infrastructure. Specifically, this concerns the "Optimisation of the Beroun-Zbiroh line" and "Optimisation of the Zbiroh-Rokycany line" construction projects.

Additions to assets under construction predominantly include costs associated with the construction of rail corridors and construction works to modernise and renovate the railway infrastructure in 2011 where the grant used to finance the constructions has not been accounted for before 31 December 2011. Disposals include parts of assets which were reported as under construction as of 31 December 2010 but were completed as of 31 December 2011 and where a decrease of the acquisition cost by the received grant was accounted for in 2011. In 2011, subsidised assets totalling CZK 10,937,138 thousand were included in the off balance sheet records.

4.2.2 Investment Grants

Set out below is an analysis of the total balance of investment grants for the years ended 31 December 2010 and 2011:

(CZK '000)

| | 1 Jan - 31 Dec 2010 | 1 Jan - 31 Dec 2011 |
|--|---------------------|---------------------|
| State Fund of Transport Infrastructure for construction and modernisation, state share, Transport Operational Programme, EIB | 13,967,070 | 10,831,310 |
| EU funds | 794,429 | 552,414 |
| Contributions from municipalities, regions and other entities | 13,797 | 31,217 |
| Total investment grants | 14,775,296 | 11,414,941 |

Grants from the State Fund of Transport Infrastructure for construction and modernisation include funds from the Transport Operational Programme and grants from the State Fund of Transport Infrastructure for projects financed from national resources.

In 2011, funds provided from the Transport Operational Programme amounted to CZK 5,710,565 thousand and in 2010 to CZK 8,836,055 thousand.

Grants received from the State Fund of Transport Infrastructure in the form of pre-financing in 2011 amounted to CZK 70,427 thousand and in 2010 to CZK 63,230 thousand.

4.2.3 Assets not Reported in the Balance Sheet

The aggregate amount of low value tangible assets not reported in the balance sheet is CZK 935,480 thousand and CZK 683,153 thousand as of 31 December 2011 and 31 December 2010, respectively. These balances are composed of assets with a cost not exceeding CZK 40 thousand which are retained in the sub-ledger records at historical cost.

These balances were recognised in expenses when acquired in accordance with the effective legislation.

The increase in low value tangible assets of CZK 252 million in the sub-ledger records is caused by the purchase of the Rail Servicing part of a business on 1 September 2011. These assets were valued at historical cost and concern predominantly office equipment, computers, telephones, and radio communication systems.

The amount of fixed assets financed from grants and other sources recorded off-balance sheet is CZK 141,190,839 thousand and CZK 130,277,086 thousand as of 31 December 2011 and 31 December 2010, respectively.

4.2.4 Pledged Assets

SŽDC held no pledged assets as of 31 December 2011.

4.2.5 Assets Held Under Finance and Operating Leases

SŽDC did not hold any assets under finance leases in the year ended 31 December 2011.

Assets in operating leases consist namely of non-residential premises owned by ČD which are used by SŽDC as rooms for placing technologies and offices for staff which ensure railway operability (approx. CZK 62 million per annum) and offices for traffic control employees (approx. CZK 51 million per annum – in 2011 only a corresponding proportion for the period September–December 2011). Lease contracts are concluded for an indefinite period with notice period and the possibility to decrease the size of the leased premises.

4.2.6 Assets Acquired Free of Charge

As of 31 December 2011, SŽDC records, within tangible fixed assets, assets acquired free of charge in the value of CZK 635 million. Assets acquired free of charge include assets recorded within tangible fixed assets based on a contract, usually a contract on free-of-charge transfer. This concerns assets transferred to SŽDC related to induced investments of entities such as the Road and Motorway Directorate, water management companies or towns and municipalities where the assets are part of the railway infrastructure and are managed – pursuant to the law – by SŽDC.

4.3. Inventory

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|-----------------------------|------------------------|------------------------|
| Material in stock | 282,973 | 334,109 |
| Material in transit | 160 | 159 |
| Work in progress | 815 | 744 |
| Goods in stock | 13 | 12 |
| Prepayments for inventory | -- | 8 |
| Provision against inventory | -73 | -95 |
| Total inventory | 283,888 | 334,937 |

The increase in material was due to the purchase of the Rail Servicing part of the business from ČD on 1 September 2011, in particular uniforms and gear components now kept in the Hradec Králové Uniform and Gear Store, totalling CZK 65 million.

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4.4. Short-Term Receivables

4.4.1 Trade Receivables

Set out below is an ageing analysis of trade receivables:

(CZK '000)

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

(CZK '000)

| 31 Dec 2011 | Before due date | Past due date (in days) | | | | | Total past due | Total |
|-------------|-----------------|-------------------------|--------|---------|-----------|---------------------|----------------|-----------|
| | | 0-90 days | 91-180 | 181-365 | 1-2 years | 2 years and greater | | |
| Gross | 1,382,735 | 48,595 | 2,334 | 57,228 | 86,182 | 498,502 | 692,841 | 2,075,576 |
| Provision | -- | -- | -- | -6,238 | -85,961 | -426,467 | -518,666 | -518,666 |
| Net | 1,382,735 | 48,595 | 2,334 | 50,990 | 221 | 72,035 | 174,175 | 1,556,910 |

Total receivables as of 31 December 2011 have decreased slightly compared to 2010. Total receivables past maturity remain at the level of the previous year. A considerable part of receivables within and past maturity consists of receivables relating to the use of the railway infrastructure by ČD and ČD Cargo, a.s.

Provisions include an amount of CZK 297,203 thousand recognised against receivables from ČD Cargo, a.s. arising from unpaid invoices for the supply of traction electricity, of which an amount of CZK 193,695 thousand was created pursuant to Act No. 593/1992 Coll., on Reserves, to ascertain taxable profit for purposes of income taxation. Receivables were not settled by ČD Cargo, a.s. in full as ČD Cargo, a.s. did not agree with the billed price. These receivables are currently subject to court proceedings held at the High Court in Prague.

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, and therefore SŽDC withdrew from the contract in 2006 and again became the creditor in respect of these receivables. These receivables from the assignee amount to CZK 112,981 thousand as of 31 December 2011, to which a provision of CZK 112,981 thousand has been created.

4.4.2 Tax Receivables

As of 31 December 2010 and 2011, tax receivables consist of a VAT receivable of CZK 644,966 thousand and CZK 1,029,852 thousand, respectively.

4.4.3 Other Receivables

The structure of other receivables:

(CZK '000)

| Type of receivable | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|---|------------------------|------------------------|
| Receivables assumed from ČD, s. o. | 13,334 | 12,106 |
| Of which: Damage to the assets of ČD, s. o. | 10,330 | 9,274 |
| Other | 3,004 | 2,832 |
| Receivables arising from damages | 37,764 | 45,715 |
| Receivables from the purchase of a part of a business | 22,390 | 22,390 |
| Contribution to the cultural and social needs fund | 62,883 | 37,892 |
| Other | 829 | 927 |
| Total other receivables | 137,200 | 119,030 |
| Provisions | -71,175 | -79,045 |
| Total other receivables, net | 66,025 | 39,985 |

The rebilling of the damage arising from the collapse of a bridge in the Studénka railway station constitutes a significant part of receivables arising from damages, in the amount of CZK 11,124 thousand and has been submitted for legal recovery. Damage arising from a train derailling during construction works amounting to CZK 9,302 thousand has been submitted for legal recovery as well.

Other important receivables include the claim for a non-functional ultra-sonic rail monitoring device, amounting to CZK 9,400 thousand.

Lower contributions to the cultural and social needs fund relate to a decrease in the amount of contribution required by law in 2011.

4.5. Estimated Receivables

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|---|------------------------|------------------------|
| Anticipated grant from EU funds (refer to Note 3.11) | 990,451 | 125,519 |
| Estimated receivable arising from billing for use of railway infrastructure in freight transportation | 5,765 | 997 |
| Claimed compensation for damage arising from the mandate contract with ČD | 977 | 977 |
| Estimated receivable from rebilling expenses for the administration of residential premises, the sale of which did not become legally effective | 3,162 | 988 |
| Estimated receivable for the share of the ČD network transition | 819 | 1,334 |
| Unbilled consumption of electricity | 5,962 | 7,532 |
| Fire-fighting services for ČD | 12,651 | 14,076 |
| Fire-fighting services for ČD Cargo, a. s. | 7,321 | 10,503 |
| Settlement for Railreklam | 4,391 | -- |
| Estimated receivables from damages claimed | 69,229 | 86,793 |
| Heat consumption by lessees | 11,730 | 7,719 |
| Other items | 23,364 | 21,194 |
| Total estimated receivables | 1,135,822 | 277,632 |
| Provision | -977 | -977 |
| Total net estimated receivables | 1,134,845 | 276,655 |

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In 2011 several projects co-financed with the EU were completed, which led to a decrease in estimated grants from EU funds compared to 2010. On one hand the decrease was caused by paying the expected grants from EU funds (this concerns the projects Modernisation of the Červenka – Zábřeh na Moravě Railway Line and Reconstruction of the Olomouc Railway Station), on the other hand by approving and remission of payables towards the State Fund of Transport Infrastructure during the final billing. A decrease of payables towards the State Fund of Transport Infrastructure simultaneously clears the estimated receivables from the EU (this concerns the projects Modernisation of the Blažovice – Nezamyslice Railway Line, Optimisation of the Pilsen – Stříbro Line, Reconstruction of the Olomouc Railway Station, and Modernisation of the Červenka – Zábřeh Railway Line).

The services of the Fire Department for ČD, a.s. and ČD Cargo, a.s. were provided based on the association contract in 2011, and they were invoiced in 2012.

Other items mainly consists of estimated items for billing additional lease-related services and estimated items for consumption of heat delivered by SŽDC to its customers.

4.6. Derivative Financial Instruments

(CZK '000)

| | 31 Dec 2010 Fair value | 31 Dec 2011 Fair value |
|------------------------------|---------------------------|---------------------------|
| Derivatives held for trading | | |
| Interest rate swaps | -62,258 | -56,806 |
| Total | -62,258 | -56,806 |

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 a bank loan not guaranteed by the state provided by Česká spořitelna, a.s. for the funding of performance improvement activities on the railway infrastructure in the aggregate amount of CZK 1.5 billion. The Framework Contract includes an Interest Rate Swap Hedging Contract which is in effect until 31 December 2013; the hedging of interest rates relates to the gradual drawing of the loan facility up to CZK 1.5 billion and the interest rates are hedged based on the fixed 3M Pribor ± variance.

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

4.7. Short-term Financial Assets

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|----------------------------------|------------------------|------------------------|
| Cash on hand and cash in transit | 1,482 | 1,075 |
| Stamps and vouchers | 2,328 | 2,005 |
| Cash at bank | 1,383,979 | 1,203,167 |
| Total financial assets | 1,387,789 | 1,206,247 |

In assessing the total balance of the Company's cash at bank, it is necessary to consider the balance of an overdraft facility of CZK 927,287 thousand (refer to Note 4.13.3.). Reflecting this impact, the total balance of the Company's disposable funds as of 31 December 2011 is CZK 275,880 thousand.

4.8. Deferred Expenses

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

4.9. Equity

Analysis of movements in equity from 1 January 2011 up to 31 December 2011

| | Share capital | Capital funds | Statutory reserve fund/ Undistributable fund | Statutory and other funds | Retained profits | Profit or loss for the current period | Total equity |
|--|-------------------|----------------|---|---------------------------|------------------|---------------------------------------|-------------------|
| Balance at 1 January 2011 | 52,741,957 | 906,091 | 973,638 | 32,359 | 4,961,537 | -1,503,987 | 58,111,595 |
| Received gifts | -- | 34,648 | -- | -- | -- | -- | 34,648 |
| Assets identified during stock counts | -309 | 2,893 | -- | -- | -- | -- | 2,584 |
| Free of charge transfers of assets and other transfers | 36,699 | -- | -- | -- | -- | -- | 36,699 |
| Privatised assets | -1,175 | -- | -- | -- | -- | -- | -1,175 |
| Distribution of profit or loss | -- | -- | -- | -- | -1,503,987 | 1,503,987 | -- |
| Use of the culture and social needs fund | -- | -- | -- | -42,904 | -- | -- | -42,904 |
| Subsidies to the culture and social needs fund | -- | -- | -60,551 | 35,560 | -- | -- | -24,991 |
| Profit or loss for the current period | -- | -- | -- | -- | -- | 833,625 | 833,625 |
| Rounding | -- | -- | -- | -- | -2 | -- | -2 |
| Balance at 31 December 2011 | 52,777,172 | 943,632 | 913,087 | 25,015 | 3,457,548 | 833,625 | 58,950,079 |

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

In accordance with Czech Accounting Standard No. 22., the amount of share capital was reduced by the net book value of privatised assets in 2011 and 2010.

Changes in the share capital were also influenced by fluctuations due to delimitations when assets of CZK 67,629 thousand were added and assets of CZK 30,916 thousand were handed over.

In connection with the process of making the transformation of ČD, s.o. more precise, no additions or disposals of assets were accounted for in fixed assets or equity in SŽDC's accounting books. In 2010 land worth CZK 517 thousand was included in SŽDC's assets. At the same time, land worth CZK 105 thousand was removed from SŽDC's accounting records.

The increase in other capital funds primarily represents the recording of received gifts and free-of-charge transfers of assets from state organisations.

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4.10. Reserves

(CZK '000)

| | Balance at 31 Dec 2010 | Additions | Use | Balance at 31 Dec 2011 |
|---|---------------------------|----------------|----------------|---------------------------|
| Reserve for legal disputes | 854,072 | 93,848 | 106,914 | 841,006 |
| Reserve for compensation for job-related accidents and occupational illness | 99,941 | 3,579 | 16,305 | 87,215 |
| Reserve for extra pension payments | 54,025 | 46,299 | 54,025 | 46,299 |
| Reserve for damages – ČD Cargo, a.s. | 135,939 | 21,582 | -- | 157,521 |
| Reserve for restructuring | -- | 34,192 | -- | 34,192 |
| Total reserves | 1,143,977 | 199,500 | 177,244 | 1,166,233 |

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

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

The reserve for damages to ČD Cargo, a.s. was created for a possible payable for the compensation of damage incurred by ČD Cargo, a.s. as a result of increased costs for rerouting due to line closures. SŽDC has created this reserve to adhere to the principle of prudence (see Note 6.1.).

4.11. Long-Term Payables

4.11.1 Issued Bonds

Pursuant to Czech Government Resolution No. 908 dated 10 September 2003 relating to the receivables and payables of České dráhy, s.o. 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 bonds were paid to holders in due term of maturity, i.e. March 2011, by the Ministry of Finance. Long-term payables to the holders of bonds were then reclassified as long-term payables to the state, which will be subject to remission of debts.

4.11.2 Long-Term Trade Payables

(CZK '000)

| Type of payable | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|--|------------------------|------------------------|
| Retentions | 2,220,698 | 1,359,671 |
| Bid-bonds, security deposits, sureties | 3,000 | 3,000 |
| Cash deposits received from customers | 242 | 14,739 |
| Total | 2,223,940 | 1,377,410 |

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

4.11.3 Other Payables

(CZK '000)

| Creditor | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|---|------------------------|------------------------|
| Czech Ministry of Finance – payment of non-guaranteed loans for principals and interest on loans, and bonds | -- | 2,548,947 |
| Czech Ministry of Finance – payment under the state guarantee for loan interest, after the remission | 273,916 | 488,171 |
| Czech Ministry of Finance – payment under the state guarantee for loan principal, after the remission | 946,698 | 1,897,210 |
| Total | 1,220,614 | 4,934,328 |

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

In 2005, the Czech Government adopted Resolution No. 1553 on the remission of these payables based on which the long-term payables were decreased. In 2010 and 2011, payables of CZK 3,751 million and CZK 5,877 million were remitted.

4.12. Short-Term Payables

4.12.1 Trade Payables

Set out below is an ageing analysis of trade payables:

(CZK '000)

| Year | Before due date | Past due date (days) | | | | | Total past due | Total |
|------|-----------------|----------------------|--------|---------|-----------|---------------------|----------------|-----------|
| | | 0–90 days | 91–180 | 181–365 | 1–2 years | 2 years and greater | | |
| 2010 | 3,067,145 | 20,066 | 122 | 1,164 | 19 | 73 | 21,444 | 3,088,589 |
| 2011 | 3,301,670 | 17,436 | 8,666 | 407 | 90 | -- | 26,599 | 3,328,269 |

The total amount of payables as of 31 December 2011 remains approximately the same as the previous year.

Payables past their due dates predominantly relate to Skanska a.s., OHL ŽS, a.s. and EUROVIA CS, a.s. regarding their investment construction.

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4.12.2 Social Security and Health Insurance Payables

As of 31 December 2011, the Company carried only social security and health insurance payables before their due dates.

4.12.3 Tax Payables and Subsidies

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|--|------------------------|------------------------|
| Undrawn investment subsidies from the SFTI | 14,825 | 15,626 |
| SFTI – FS recoverable investment subsidy | 932,592 | 40,813 |
| SFTI – TEN-T recoverable subsidy | 62,675 | 88,978 |
| TEN-T investment subsidy | 594,793 | 531,401 |
| Investment contributions of municipalities, regions and other entities | 12,765 | 23,510 |
| Income tax withheld on behalf of employees | 33,387 | 64,695 |
| Other taxes | 53 | 136 |
| Other grants to sales | 15 | -- |
| Total tax payables and subsidies | 1,651,105 | 765,159 |

The bulk of the balance of the investment subsidy as of 31 December 2011 includes the payable from undrawn EU – TEN-T funds amounting to CZK 531,401 thousand. In 2010 the net value of investment subsidies includes predominantly the payable of the pre-financing of constructions in terms of a recoverable subsidy (refer to Note 3.11.) for constructions co-financed from EU funds, in the amounts of CZK 995,267 thousand and CZK 129,791 thousand as of 31 December 2010 and 2011, 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 103,110 thousand and CZK 119,821 thousand as of 31 December 2010 and 2011, respectively. Prepayments are received predominantly for the billing of ancillary services relating to the lease of residential and non-residential premises and provision of easements when the Company is the obligated party, and prepayments for the purchase of electricity.

4.12.5 Estimated Payables

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|---|------------------------|------------------------|
| Unbilled non-investment supplies | 179,860 | 192,702 |
| Unbilled investment supplies | 63,486 | 122,425 |
| Estimated payable for interest expenses in respect of corridors | 34,317 | 30,849 |
| Other | 4,605 | 6,375 |
| Total estimated payables | 282,268 | 352,351 |

Unbilled non-investment supplies include estimated additional lease-related costs as well as estimated internal electricity consumption costs.

The balance of unbilled investment supplies as of 31 December 2011 increased year-on-year due to unbilled investment supplies on the work of the third railway corridor.

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 primarily in connection with the financing of the construction and renovation of corridors, programme for the renovation and modernisation of passenger rail vehicles and other development programmes pursuant to Government Resolutions 798/1999 and 1201/2000. The debt portfolio includes also a non-guaranteed loan from Česká spořitelna, a.s. for performance improvements, which is being drawn continuously.

(CZK '000)

| Bank | Currency | Balance at 31 Dec 2010 | Drawing in 1-12/2011 | Repayments in 1-12/2011 | Foreign exchange differences | Balance at 31 Dec 2011 |
|---------------------------------|----------|---------------------------|-------------------------|----------------------------|---------------------------------|---------------------------|
| The 1st Corridor | | | | | | |
| KfW Frankfurt | EUR | 160,162 | -- | 31,903 | 3,654 | 131,913 |
| EIB Luxemburg | EUR | 829,250 | -- | 205,563 | 16,616 | 640,303 |
| Japan. EXIM Bank | JPY | 741,594 | -- | 180,853 | 60,471 | 621,212 |
| EIB Luxemburg | EUR | 821,906 | -- | 124,772 | 18,861 | 715,995 |
| ČS, a.s. | CZK | 224,400 | -- | 224,400 | -- | -- |
| KB, a.s | CZK | 695,000 | -- | 174,000 | -- | 521,000 |
| KfW Frankfurt | EUR | 614,805 | -- | 76,541 | 15,576 | 553,840 |
| The 2nd Corridor | | | | | | |
| EIB Luxemburg | EUR | 2,004,800 | -- | 339,020 | 54,220 | 1,720,000 |
| EIB Luxemburg | EUR | 2,864,000 | -- | 284,932 | 74,646 | 2,653,714 |
| KfW Frankfurt | EUR | 1,665,688 | -- | 255,227 | 40,586 | 1,451,047 |
| Subtotal | | 10,621,605 | -- | 1,897,211 | 284,630 | 9,009,024 |
| Performance improvements | | | | | | |
| ČS, a.s. | CZK | 1,199,995 | -- | 75,000 | -- | 1,124,995 |
| Subtotal | | 1,199,995 | -- | 75,000 | -- | 1,124,995 |
| Total | | 11,821,600 | -- | 1,972,211 | 284,630 | 10,134,019 |

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)

| | Paid in 2011 | Due in 2012 | Due in the following years |
|-----------------|------------------|------------------|----------------------------|
| Long-term loans | 1,972,211 | 1,964,488 | 8,310,757 |
| Total | 1,972,211 | 1,964,488 | 8,310,757 |

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 1,972,211 thousand in the year ended 31 December 2011.

The debt service arising from the non-guaranteed loan provided by Česká spořitelna, a.s., was paid by the Company in full in the amount of CZK 75,000 thousand.

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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 Bank Loans

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|------------------------------|------------------------|------------------------|
| Overdraft | 869,111 | 927,287 |
| Short-term bank loans | 869,111 | 927,287 |

At the end of 2011, the Company drew the allowed overdraft limit from the cash pool account to settle payables arising from operability and operations of the railway infrastructure (including the rail servicing).

4.14. Deferred Taxation

SŽDC has determined deferred taxation as follows:

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|---|------------------------|------------------------|
| Tangible and intangible fixed assets | -3,741,945 | -3,910,806 |
| Provisions against assets | 59,637 | 47,355 |
| Trade receivables | 79,087 | 42,807 |
| Reserves | 217,356 | 221,584 |
| Tax losses carried forward | 313,769 | 150,524 |
| Total deferred tax (+asset/-liability) | -3,072,096 | -3,448,536 |

According to the principle of prudence, the calculation of the deferred tax reflected only part of the tax losses from prior years in an amount whose utilisation is likely. In accordance with accounting procedures shown in Note 3.9, tax amounting 19% (2010 – 19%) was calculated for deferred taxation.

4.15. Accruals and Deferrals

(CZK '000)

| | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|--|------------------------|------------------------|
| Accrued expenses for interest on the issue of SŽDC's bonds | 267,304 | -- |
| Settlement agreement – lump-sum compensation of future expenses | 80,000 | 79,664 |
| Rent collected upfront | 7,395 | 5,245 |
| Accrued expenses for the payment for non-compliance with the obligatory number of employed disabled people | 9,853 | 10,721 |
| Accrued expenses – documents received after the annual VAT reconciliation | --- | 9,660 |
| Other | 5,658 | 6,831 |
| Total accrued expenses and deferred income | 370,210 | 112,121 |

Bonds were paid by the State in March 2011. Accrued expenses concerning interest on the issue of SŽDC's bonds were transferred to other long-term payables in 2011.

The subject matter of the settlement agreement is the financial settlement resulting from the supplies of defective material which will be gradually replaced by 31 December 2018.

4.16. Income from Own Products and Services

(CZK '000)

| Item | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|--|------------------------|------------------------|
| Income from use of the railway infrastructure by ČD a.s. – freight transport | 80,800 | 57,903 |
| Income from use of the railway infrastructure by ČD a.s. – passenger transport | 1,317,213 | 1,577,338 |
| Income from use of the railway infrastructure by ČD Cargo a.s. – freight transport | 2,539,310 | 2,326,022 |
| Income from use of the railway infrastructure by external carriers – freight transport | 379,758 | 431,448 |
| Income from use of the railway infrastructure by external carriers – passenger transport | 4,872 | 12,632 |
| Income from operation of the railway infrastructure | 70,934 | 65,952 |
| Rental income | 192,764 | 189,989 |
| Income from other external services | 643,441 | 485,703 |
| Income from the sales of electricity | 1,481,731 | 1,674,497 |
| Income from foreign carriers for provided services (extraordinary shipments, etc.) | 1,967 | 2,139 |
| Total income from the sale of own products and services | 6,712,790 | 6,823,623 |

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

The increase in the income from passenger transport provided by ČD is due to the adoption of maximum prices pursuant to the Assessment of the Ministry of Finance as of 1 January 2011 for trains which were not part of the regional transport service obligations. The increase from passenger transport provided by operators outside the ČD Group (external carriers) is caused by the active entry of the RegioJet, a.s. carrier on the transport market.

The decrease in the income from freight transport provided by ČD Cargo, a.s. with the same transport volumes is due to a reduction of price for infrastructure use by approx. 9% compared to the maximum price (as of 1 January 2011) and due to a significant decrease in transport volumes carried out by ČD. The increase in the income in freight transport provided by external carriers is due to a considerable increase in transport volumes carried out by external carriers, the above price reduction by 9% notwithstanding.

The decrease in other external services is also partly due to a decrease of Fire-fighting Service interventions for ČD Cargo, a.s. and by a change in contractual terms and conditions for such interventions where neither ČD nor ČD Cargo, a.s. require any technical help from SŽDC.

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4.17. Purchased Services

(CZK '000)

| Item | Balance at 31 Dec 2010 | Balance at 31 Dec 2011 |
|---|------------------------|------------------------|
| Costs of managing the operation of the railway infrastructure by ČD a.s. | 5,194,373 | 3,266,666 |
| Costs of construction repairs and maintenance | 2,828,212 | 2,654,099 |
| Costs of repairing apartments | 18,661 | 30,594 |
| Costs of audit, legal and economic services | 10,659 | 6,765 |
| Of which: – statutory audit of the financial statements | 2,300 | 1,250 |
| – other assurance services of the previous statutory auditor | 191 | 2,129 |
| – other non-audit services of the previous statutory auditor | 8,168 | 3,386 |
| Costs of cooperation in allocating the capacity of the railway infrastructure | 450 | 87 |
| Maintenance that can be done by outsourcing | --- | 690,327 |
| Other | 2,353,737 | 1,891,177 |
| Of which: – repair and maintenance | 1,089,736 | 728,044 |
| – lease, software under CZK 60 thousand, platform cleaning, etc. | 1,264,001 | 1,163,133 |
| Total | 10,406,092 | 8,539,715 |

The decline in traffic control costs on the infrastructure is due to the purchase of the Rail Servicing part of the business from ČD, which was ensuring these activities for SŽDC until 31 August 2011. Ensuring the servicing of railways is recorded in SŽDC from 1 September 2011 in costs accounts according to their type, but especially in wages and salaries.

In order to record activities which can be better provided through outsourcing, these services have been recorded separately since 1 January 2011, thus leading to a decrease in construction repair and maintenance costs. This concerns activities that can be provided by third parties based on contracts.

4.18. Staff Costs

(CZK '000)

| | Total staff costs in 2010 | Wages and salaries | Social security and health insurance | Other expenses | Total staff costs 2011 |
|-----------------------------|---------------------------|--------------------|--------------------------------------|----------------|------------------------|
| Additional social programme | 69,994 | 25,954 | -- | -- | 25,954 |
| Current costs | 4,412,827 | 3,763,301 | 1,286,312 | 284,376 | 5,333,989 |
| Other | 139,013 | 88,308 | -- | -- | 88,308 |
| Total | 4,621,834 | 3,877,563 | 1,286,312 | 284,376 | 5,448,251 |

Current staff costs represent costs of SŽDC's employees for the year ended 31 December 2011. The "social security and health insurance" column shows payments made by the employer.

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

4.19. Change in Reserves and Provisions

(CZK '000)

| Item | Year ended 31 Dec 2010 | Year ended 31 Dec 2011 |
|---|------------------------|------------------------|
| Change in reserves | 820,323 | 22,256 |
| Change in provisions against receivables | -4,484 | 4,321 |
| Change in provisions against tangible fixed assets | -50,084 | -25,920 |
| Change in provisions against inventory | 23 | 22 |
| Total change in reserves and provisions relating to operating activities | 765,778 | 679 |

The increase in the balance of reserves relates to the recognition of the reserve for damage compensation claimed by ČEZ Prodej, s.r.o. due to the Company's failure to purchase the contracted amount of electricity in 2010. The changes in reserves in 2011 are due to an accounted reserve for reorganisation as of 1 January 2012 (refer to Note 4.10.).

4.20. Other Operating Income

(CZK '000)

| Item | Year ended 31 Dec 2010 | Year ended 31 Dec 2011 |
|--|------------------------|------------------------|
| Subsidies from SFTI for repairs and maintenance of the railway infrastructure | 8,159,000 | 8,053,645 |
| Subsidies from SFTI for repairs and maintenance after floods | 311,721 | 459,698 |
| Non-investment subsidies from the state budget | 1,776,971 | 1,230,000 |
| Non-investment subsidies from SFTI – special purpose | 974 | -- |
| Non-investment subsidies – Transport Operational Programme | 8,288 | 5,806 |
| Other subsidies | 4,626 | 87 |
| Subsidies from the state budget to the additional social programme pursuant to the governmental resolution | 69,994 | 26,000 |
| Remission of debts | 3,750,868 | 5,877,350 |
| Proceeds from recovered material | 167,468 | 264,942 |
| Proceeds from privatisation | -- | 30,126 |
| Received contractual penalties and default interest | 12,767 | 10,490 |
| Claims for compensation for shortages and damage | 91,478 | 96,754 |
| Other | 103,294 | 53,130 |
| Total other operating income | 14,457,449 | 16,108,028 |

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4.21. Other Operating Expenses

(CZK '000)

| Item | Year ended 31 Dec 2010 | Year ended 31 Dec 2011 |
|--|------------------------|------------------------|
| Non-investment and investment default interest | 2,192 | 2,739 |
| Fines and penalties | 1,088 | 10,322 |
| Write-offs of receivables | 8,888 | 9,330 |
| Write-off of failed investments | 4,836 | 1,243 |
| Rent paid | 17,806 | 16,305 |
| Costs arising from non-employment of disabled people | 9,853 | 10,721 |
| Insurance of assets and liability insurance | 23,892 | 38,579 |
| Membership contributions | 6,261 | 5,206 |
| Shortages and damage | 3,623 | 985 |
| Liability for damage to third party assets | 11,901 | 21,062 |
| Other | 18,165 | 9,037 |
| Total other operating expenses | 108,505 | 125,529 |

The write-off of failed investments was made based on the resolution of the review committee through the exclusion of the project documentation for projects that are not expected to be realised.

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

4.22. Interest Income

The interest income in the years ended 31 December 2010 and 2011 amounted to CZK 7,985 thousand and CZK 5,523 thousand, respectively.

4.23. Other Financial Income

Other financial income principally includes foreign exchange gains arising from foreign currency translation and income from derivate transactions.

4.24. Other Financial Expenses

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

5. EMPLOYEES MANAGEMENT AND STATUTORY BODIES

5.1. Staff costs and number of employees

The following tables summarise the average recalculated number of SŽDC's employees and managers and the related current staff costs for the years ended 31 December 2010 and 2011:

(CZK '000)

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

(CZK '000)

| 2011 | Average headcount | Wages and salaries | Social security and health insurance | Other expenses | Total staff costs |
|--------------|--------------------------|---------------------------|---|-----------------------|--------------------------|
| Staff | 11,588 | 3,817,673 | 1,266,272 | 283,406 | 5,367,351 |
| Managers | 55 | 59,890 | 20,040 | 970 | 80,900 |
| Total | 11,643 | 3,877,563 | 1,286,312 | 284,376 | 5,448,251 |

As of 1 January 2011, the Company had 8,641 employees, divided into 21 organisational units by activities and regions and the head office responsible for the strategic and organisational role in the Company.

As of 1 September 2011, the Rail Servicing section, divided into 8 organisational units with 9,336 employees, has been transferred from ČD to the Company. As of that date the Company had 17,840 employees altogether. Optimisation of the number of employees continued during the year by merging a number of organisational units, resulting in a total of 23 and thus leading to a decrease in staff costs.

As of 31 December 2011 the Company had 17,765 employees.

5.2. Loans, Borrowings, and Other Benefits Provided

In 2010 and 2011 members of the Company's management did not receive any borrowings, loans or any other bonuses in addition to their basic salaries.

In 2011 bonuses totalling CZK 1,218 thousand were paid to members of SŽDC's statutory bodies – the Management Board.

6. CONTINGENT LIABILITIES AND OTHER OFF BALANCE SHEET COMMITMENTS

6.1. Off Balance Sheet Commitments

Environmental Liabilities

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

It is impossible to determine the liabilities related to the prevention of potential future damage (predominantly due to accident leakage of harmful substances in extraordinary events). 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. In case of confirming the originator of an environmental accident such costs are being rebilled.

Concurrently, it will be necessary to continue with the gradual removal of the legacy noise burden in sections both within and outside the corridors (estimated at CZK 1.1 billion).

With respect to the modernisation of the railway infrastructure, environmental protection is an integral part of the preparatory project documentation and environmental costs are part of the acquisition cost of a new investment construction.

In the year ended 31 December 2011, total non-capital environmental costs were calculated to be approximately CZK 382 million. The capital costs of sound protection in the modernisation of tracks were calculated at CZK 340 million.

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Legal Disputes

a) ČEZ Prodej, s.r.o.

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

b) ČD Cargo, a.s.

ČD Cargo, a.s. issues invoices to SŽDC for damage incurred from increased costs related to alternate routes for reasons of line closures. SŽDC does not recognise these invoices and does not incorporate them into its accounting. However ČD Cargo, a.s. unilaterally charges these receivables against invoices issued by SŽDC for use of infrastructure. SŽDC does not recognise these unilateral charges either and asked the Prague Municipal Court to issue an order for payment to cover arrears for use of infrastructure. ČD Cargo, a.s. filed a protest against this order for payment.

ČD Cargo, a.s. did not pay for a part of purchased electricity for the year 2009 invoiced by SŽDC. The Company has filed suit, claiming disbursement of unjustified enrichment amounting to CZK 286,135 thousand. A decision of the High Court of Justice in Prague is now expected.

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 is overseeing 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 2011 | Construction work undertaken to date | Remaining estimated costs | Total estimated costs |
|------------------------|--------------------------------------|---------------------------|-----------------------|
| 1st Corridor | 40,759,568 | -- | 40,759,568 |
| 2nd Corridor | 39,016,291 | -- | 39,016,291 |
| 3rd Corridor | 33,767,949 | 27,297,642 | 61,065,591 |
| 4th Corridor | 16,917,925 | 29,138,731 | 46,056,656 |
| Total | 130,461,733 | 56,436,373 | 186,898,106 |

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 – Prague – Pilsen – Cheb, state border. 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 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. The amount of CZK 41.9 billion from the State Fund of Transport Infrastructure, bank loans and EU funds was approved for the implementation. Subsequently, both Government resolutions were updated on 13 July 2005 by Resolution No. 885, which was cancelled on 20 July 2011 by Resolution No 570.

The 3rd Transit Railway Corridor should be finished in 2016 with the exception of the construction “Praha–Beroun, new railway line” where the technical solution has not been chosen yet and therefore this construction is not included in total costs for the 3rd Corridor either. The 4th Transit Railway Corridor should be finished in 2018.

7. OTHER INFORMATION

7.1. Formation and Incorporation of the Company

On 1 March 2002, Act 77/2002 Coll., on České dráhy, a.s. as a joint stock company, SŽDC as a state organisation, an amendment to Railways Act 266/1994 Coll., as amended, and the State Enterprise Act 77/1997 Coll., as amended, took effect (hereinafter the “Transformation Act”). On the basis of the Transformation Act, České dráhy, a.s. as the state organisation discontinued its activities and operations on 31 December 2002 and SŽDC and České dráhy, a.s. were formed as its legal successors effective from 1 January 2003.

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

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

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

7.2. Significant Factors Impacting SŽDC’s Activities and Operations

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

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

Pursuant to Resolution of the Government of the Czech Republic No. 486 from 22 June 2011 on the transfer of remaining rail operation activities (Rail Servicing) from ČD to SŽDC and in relation to the Commercial Code, a purchase of a part of the business was realised on 1 September 2011. The subject of the purchase was Rail Servicing, i.e. traffic control in railway stations and on railway lines.

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

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

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

(CZK '000)

| 2010 | Expenses | Income |
|---|------------------|------------------|
| ČD | | |
| Costs of managing the operation of the railway infrastructure | 5,194,373 | -- |
| Income from use of the railway infrastructure – passenger transport | -- | 1,317,213 |
| Income from use of the railway infrastructure – freight transport | -- | 80,800 |
| Income from allocated railway infrastructure capacity | -- | 45,479 |
| Income from electricity – SŽE | -- | 1,208,857 |
| Total | 5,194,373 | 2,652,349 |

(CZK '000)

| 2011 | Expenses | Income |
|---|------------------|------------------|
| ČD | | |
| Costs of managing the operation of the railway infrastructure | 3,266,666 | -- |
| Income from use of the railway infrastructure – passenger transport | -- | 1,577,338 |
| Income from use of the railway infrastructure – freight transport | -- | 57,903 |
| Income from allocated railway infrastructure capacity | -- | 43,843 |
| Income from electricity – SŽE | -- | 1,420,223 |
| Total | 3,266,666 | 3,099,307 |

As of 31 December 2011, SŽDC recorded amounts due from and to České dráhy, a.s. at the net amount of CZK 524,997 thousand. The amount that is reported in the balance sheet as part of trade receivables is CZK 569,406 thousand for ČD, a.s. The trade payable including received prepayments amounts CZK 44,409 thousand. Other amounts include other receivables.

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

(CZK '000)

| | 2010 | 2011 |
|---|------------------|------------------|
| Income from use of the railway infrastructure – freight transport | 2,539,310 | 2,326,022 |
| Income from allocated railway infrastructure capacity | 16,102 | 13,797 |
| Income from electricity – SŽE | 46,911 | 4,148 |
| Total | 2,602,323 | 2,343,967 |

As of 31 December 2011, SŽDC records amounts due from and to ČD Cargo, a.s., the aggregate net book value represents a receivable of SŽDC amounting to CZK 935,318 thousand. The amount that is reported in the balance sheet as part of trade receivables is CZK 938,341 thousand for ČD Cargo, a.s. The trade payable including received prepayments amounts to CZK 9,265 thousand. Part of the receivables from ČD Cargo, a.s. is currently subject to arbitration proceedings – refer to Note 4.4.1.

7.4. Economic Benefits Associated with Fixed Assets

The useful lives of, and economic benefits associated with, the bulk of the existing tangible fixed assets forming the railway infrastructure are dependent upon the availability of funding and future decisions regarding their renovation, modernisation and performance improvement. 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. These assets are separated in the accounting by an accounting circle – Assets for Remission of Debts (MOZ).

In the year ended 31 December 2011, the Company completed 18 privatisation projects for assets within the MOZ accounting circle in the aggregate amount of CZK 1,175 thousand and a sales income of CZK 2,563 thousand.

With respect to residential buildings, the Company completed one privatisation project in the aggregate amount of CZK 315 thousand in 2011.

With respect to assets other than residential buildings, in 2011 the Company completed 17 privatisation projects in the aggregate amount of CZK 2,248 thousand.

The receivable from the Czech Ministry of Finance for unsettled completed privatisation projects for 2009 amounted to CZK 9,132 thousand and for 2011 amounted to CZK 1,292 thousand.

Income from privatised assets generated during 2011 amounts to CZK 30,126 thousand, of which CZK 28,661 thousand is for projects completed in the years 2008–2010 and CZK 1,465 thousand for projects completed in 2011.

As of 31 December 2011, SŽDC records assets intended for the settlement of payables assumed from ČD, s.o. listed in the Appendix to the Transformation Act in the aggregate net book value of CZK 686,591 thousand. As of 31 December 2010, the net book value of these assets amounted to CZK 690,032 thousand.

7.6. Sale of Assets

7.6.1. Sale of Redundant Assets

In the year ended 31 December 2011, a total of 157 transactions were concluded with an income of CZK 70,728 thousand.

8. POST BALANCE SHEET EVENTS

8.1. Reorganisation of SŽDC as of 1 January 2012

SŽDC's management decided to implement new organisational changes through the merger of its organisational units. As of 31 December 2011, 13 Regional Infrastructure Administrations and 3 Civil Engineerings were cancelled. As a result of the merger as of 1 January 2012, 7 Regional Infrastructure Administrations and 2 Civil Engineerings were established.

8.2. Reorganisation of SŽDC as of 1 April 2012

In relation to a Resolution of the Management Board, an integration of basic infrastructure management activities took place as of 1 April 2012. In carrying out this Resolution an organisational change was needed by which organisational

units – Regional Infrastructure Administrations, Regional Traffic Centres and Economy and Personnel Department – were closed. As of 1 April 2012, 7 Regional Directorates were established, to ensure infrastructure operability and managing its operation with an emphasis on using synergic effects.

8.3. Changes in Company Management

On 19 April 2012, Mr. Pavel Habarta, was recalled from the function of 1st Deputy Director General and Mr. Bohuslav Navrátil was recalled from the function of 2nd Deputy Director General.

On 19 April 2012, Mr. Jiří Kolář, was appointed Director General.

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.

Prague, 7 June 2012



Jiří Kolář
Director General

XVII. Annual report on the obligation to provide information in compliance with Section 18 of Act 106/1999 Coll., on Free Access to Information

Správa železniční dopravní cesty, státní organizace

Dlážděná 1003/7
110 00 Praha 1
Czech Republic

Annual Report

on the obligation to provide information in compliance with Section 18 of Act 106/1999 Coll.,
on Free Access to Information

for 2011

In compliance with Section 18 of Act 106/1999 Coll., on Free Access to Information, as at 1 March 2012 we released the annual report on the obligation to provide information for 2011.

The requests made in accordance with the above Act are processed by SŽDC's authorized personnel working for the Director General's Office in cooperation with SŽDC's all organization units and professional departments, depending on the nature of the request.

- | | |
|--|-----------|
| 1. Number of submitted requests for information | 12 |
| 2. Number of issued decisions rejecting a request | 4 |
| 3. Number of submitted appeals against decisions | 1 |
| 4. There were no legal proceedings related to Act No. 106/1999 Coll., on Free Access to Information | |
| 5. For the period of 2011, SŽDC received approximately 4,000 inquiries and suggestions from citizens and organizations via its central e-mail address. Pursuant to Act No. 106/1999 Coll., 12 inquiries meeting the formal statutory requirements were processed for the period in question; the other inquiries did not qualify as submissions defined by the cited act. | |

Prague, 24 February 2012



Vojtěch Kocourek
Director of the Director General's Office

XVIII. Corporate details

Name of the company: Správa železniční dopravní cesty
Legal form: state organization
Established by: Czech Republic [establisher's function entrusted to the Czech Ministry of Transport]
Date of incorporation: 1 January 2003
Identification No.: 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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Správa železniční dopravní cesty, státní organizace

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