



# 2008

## Annual Report

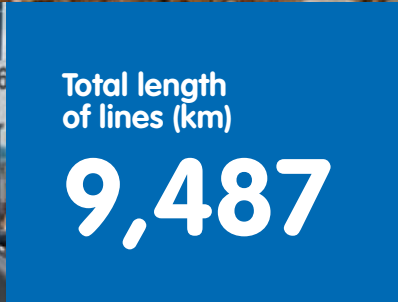


*Správa železniční dopravní cesty*



Length of electrified  
lines (km)

**3,078**



Total length  
of lines (km)

**9,487**

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Total length  
of tunnels (m)

**42,927**



Total number  
of bridges

**6,715**



**SŽDC priority is to offer carriers  
the safest and highest quality  
railway infrastructure**

# I. Opening statement



**Jan Komárek**, Director General



**Adolf Jílek**, Chairman of the Managing Board

Ladies and Gentlemen, Dear business partners,

The year 2008 marked the sixth year of the existence of the Railway Infrastructure Administration, state organization, and from the perspective of our organization this year was undoubtedly crucial. In the first half of the year, the amendment to the Act No. 77/2002 Coll. was prepared and adopted. Following this amendment as of 1st July 2008, SŽDC assumed the operator's function of national and regional rail owned by the state from Czech Railways, joint-stock company. Simultaneously with the transfer of the rail operator's function, we took over necessary material, as well as technological and personnel capacities. This step significantly furthered the enhancement of the infrastructure manager functions at SŽDC, which are provided by our own capacities. In the area of providing interoperability of the railway infrastructure, SŽDC already handles all activities with its own capacities. At the same time, we took greater responsibility for the condition and safety of railway infrastructure. Also a large number of other activities, e.g. the development of timetables, were handed over to SŽDC, and regardless of the fact that activities representing rail service, including supervisory control, were for the time being maintained by Czech Railways, joint-stock company, this step meant a fundamental change for SŽDC as well as for the whole system of rail operation in the Czech Republic. Together with other anticipated changes that should be implemented in 2009, it is surely an attempt to create equal conditions for all involved entities, to enhance transparency and to finally increase the efficiency of the railway as a whole.

As in previous years, SŽDC ensured the operation and operability of the railway infrastructure along all lines owned by the state, with the exception of those on which the rail operation was previously decided to be interrupted. In addition to these duties as the owner of the majority of railway networks in the Czech Republic and recently as the rail operator, we dealt with tasks of the organization authorized pursuant to Act No. 77/2002 Coll. To settle liabilities of the former Czech Railways, state organization in 2008. The results make it abundantly clear that we have succeeded in managing both of these functions, and another positive aspect is that the activities focused on providing the highest quality rail operation, including its modernization and development, now unequivocally prevail.

2008 was also favourable in terms of the preparation and implementation of investment projects. Other construction projects were completed along railway transit corridors and we also continued implementing rationalization projects shall result in cutting operational expenses on some lines. The field of safety shall benefit from a number of projects dealing with securing level crossings of the railway with road communications. In terms of investment funding, there was a significant increase of EU-funded construction. In the future we intend to offer all carriers the safest and highest quality railway infrastructure, and we firmly believe that in 2008, SŽDC has established a solid foundation for that.



**Jan Komárek**  
Director General



**Adolf Jílek**  
Chairman of the Managing Board

## II. Company Profile



### Corporate Details

Name of the Company:	Správa železniční dopravní cesty
Legal status:	state organization
Establisher:	Czech Republic (performance of the establisher's function has been entrusted to the Ministry of Transport CR)
Registered office:	Prague 1, Nové Město, Dlážděná 1003/7, PSČ 110 00
Corporate ID:	70994234
Date of incorporation:	1 January 2003
Website:	<a href="http://www.szdc.cz">www.szdc.cz</a>

Railway Infrastructure Administration, state organization (henceforth "SŽDC") was established pursuant to Act No. 77/2002 Coll. (Transformation Act) as one of the legal successors of the Czech Railways, state organization. Registered in the Company Register: Municipal Court in Prague, Volume A, File 48384

## Principal Operations

Pursuant to valid legal regulations, Railway Infrastructure Administration, state organization, fulfils the function of a rail owner.

### **Provides:**

- operation of the railway infrastructure;
- operability of the railway infrastructure;
- modernization and development of the railway infrastructure;
- path capacity allocation on the national and regional network owned by the Czech Republic;
- distribution and trade in traction and non-traction electric power;

### **manages:**

- assets of the state representing the railway infrastructure;
- assets listed in the Amendment to the Act No. 77/2002 Coll.;
- defined payables and receivables of the former Czech Railways, state organization, arisen as of 31.12.2002;

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

## Management of the organization

### Statutory Body:

Jan Komárek, Director General

### Managing Board (situation as of 31.12.2008):



Adolf Jílek, Chairman



Ivan Adamec



Roman Jurečko



Vlastimil Aubrecht



František Sivera



Václav Janout



Josef Smýkal

### SŽDC management (situation as of 31.12.2008):

#### Director General

Jan Komárek

#### Deputy Director General for Strategy

Bohuslav Navrátil

#### Deputy Director General for Rail Operation

Jaromír Kadlec

#### Deputy Director General for Rail Operability

Josef Novobilský

#### Deputy Director General for Modernization

Miroslav Konečný

#### Deputy Director General for Technical Services

Radek Vičar

#### Deputy Director General for Economy

Vladimír Filip

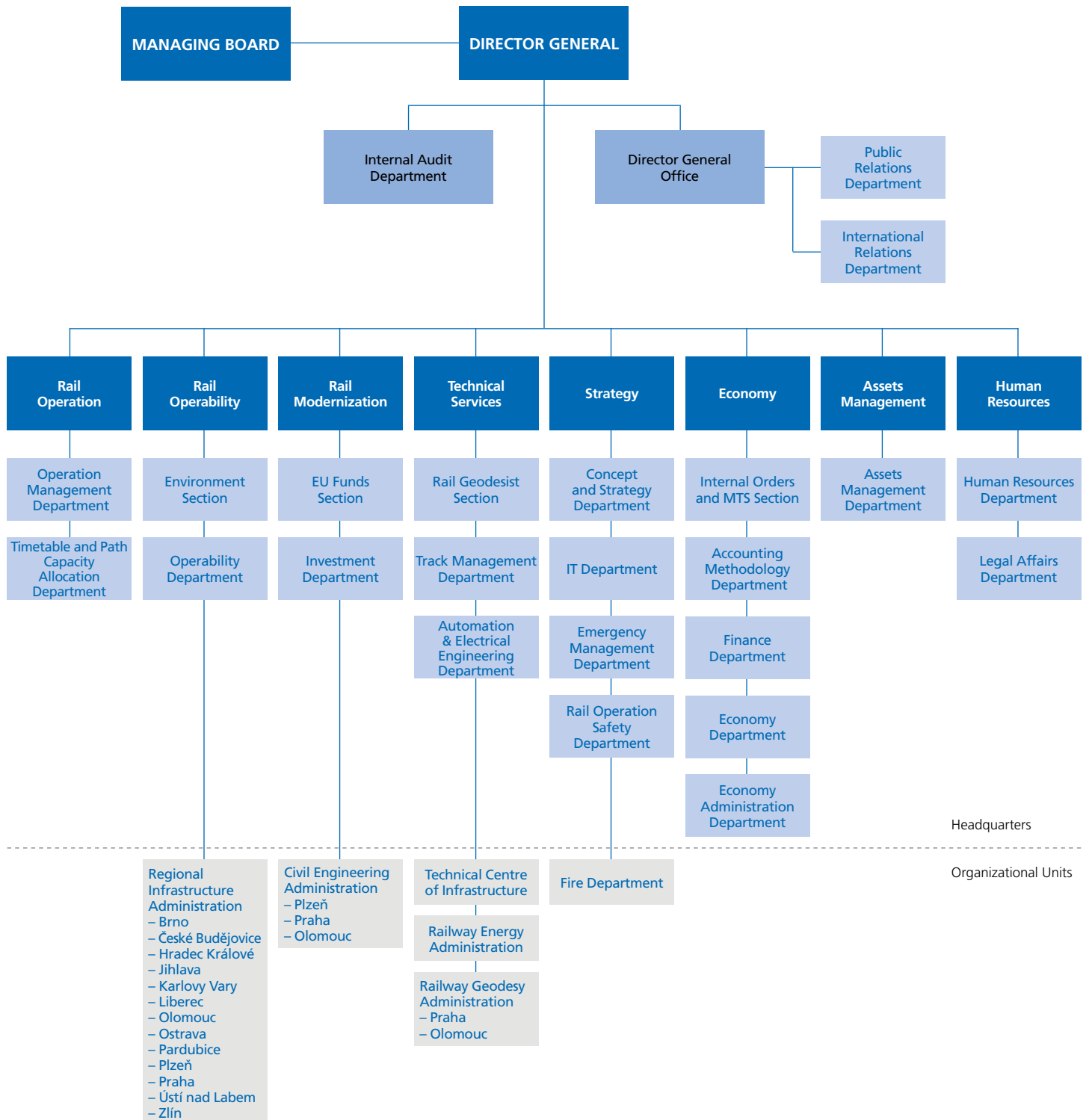
#### Deputy Director General for Assets Management

Zita Karasová

#### Deputy Director General for Human Resources

Zdeněk Jílek

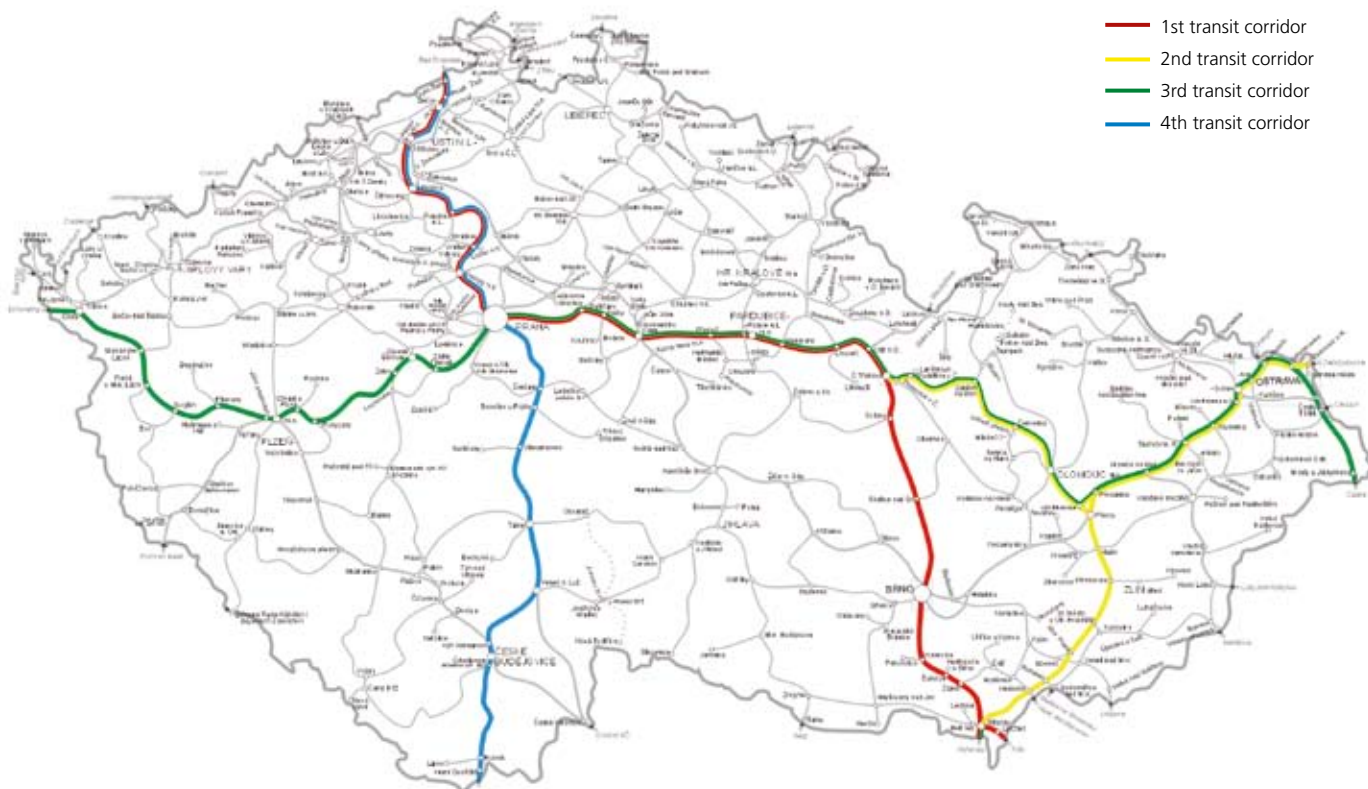
## SŽDC Organizational Structure (situation as of 31.12.2008)



## Basic characteristics of SŽDC railway network:

Indicator	Measure Unit	Amount
total length of tracks	in km	9,487
length of electrified tracks	in km	3,078
standard-gauge tracks	in km	9,464
narrow-gauge tracks	in km	23
single-track lines	in km	7,580
double and multiple-track lines	in km	1,907
total construction length of tracks	in km	15,616
switches	s.u.	25,327
bridges		6,715
tunnels		158
total length of bridges	in m	149,399
total length of tunnels	in m	42,927

## Map of Transit Corridors, Lines of Trans-European Railway Network Freight (TERNF)



### III. Operation of the Railway Infrastructure



Pursuant to Act No. 266/1994 Coll., on Rail, as amended, SŽDC is obliged to provide operation of the national and regional network. In the first half of 2008, this obligation was met pursuant to Act No. 77/2002 Coll. through the "Agreement on Providing Operation of the Railway Infrastructure, its Operability, Modernization and Development in Public Interest" concluded together with Czech Railways, joint-stock company. Following the change of the Act No. 77/2002 Coll., as of 1.7.2008 SŽDC assumed operation of the railway infrastructure in public interest. Since 1.7.2008, SŽDC has been providing rail operation with its own capacities. Work associated with rail service and selected activities dealing with the organization of rail transport within the railway infrastructure on national and regional rail are contractually provided by Czech Railways as the rail operator for SŽDC.

The regional rail of Trutnov - Svoboda nad Úpou and Sokolov - Kraslice were – based on a lease contract – operated by VIAMONT, joint-stock company; the regional rail of Milotice nad Opavou - Vrbno pod Pradědem was operated – based on a lease contract - by OKD, Doprava, joint-stock company. The regional rail of Česká Kamenice - Kamenický Šenov was sold in 2008 and its operation – based on a lease contract – was terminated by the civic association KLUB PŘÁTEL LOKÁLKY.

Classification of operators of the national and regional network owned by the state by the length of operated lines as of 31.12.2008:

SŽDC, s.o.	9,430 km
VIAMONT, joint-stock company	37 km
OKD, Doprava, joint-stock company	20 km

In 2008, the SŽDC cost of providing operation of the railway infrastructure amounted to CZK 5,538 MM.

## IV. Operability of the Railway Infrastructure



Prior to 30.6.2008, operability of the national rail and major part of regional rails was contractually provided by ČD, a.s. This contract was concluded between SŽDC and ČD.

As of 1.7.2008, following the change of the Act No. 77/2002 Coll., the function of the operator of the national rail and most regional rails was transferred from Czech Railways to SŽDC. This also induced a transfer of some other organizational and executive units shifting operability from Czech Railways to SŽDC. Also transferred were Regional infrastructure departments which represent the fundamental network of units providing operability of the railway infrastructure and other units involved in providing operability, namely Railway Geodesy Administrations, Railway Energy Administration, Technical Centre of Infrastructure and Fire Department.

After complying with all conditions resulting from Act No. 458/2000 Coll., as amended, the Energy Regulatory Authority in Jihlava granted SŽDC a licence for electric power distribution on 30.5.2007. SŽDC started to perform this function on 1.7.2007. On 3.12.2007, SŽDC was also granted a licence to trade in electric power. This activity was started on 1.1.2008.

The total cost (without amortization) invested to provide operability of the railway infrastructure amounted to CZK 8,816MM in 2008. The cost arisen during the 1st half-year of 2008 comprises the cost resulting from a contractual relationship with Czech Railways. Since 1.7.2008, SŽDC has been providing the operability of the railway infrastructure by their own capacities, which is the reason why the cost of the 2nd half-year of 2008 comprised the cost related to this activity and were accounted mainly in staff costs and in purchased consumables and services.

Overview of selected activities	2008	2007
Adjustment of directional and height arrangement of tracks including completion of the railway bed	1,215 km	1,072 km
Adjustment of directional and height arrangement of switches including completion of the railway bed	1,136 s.u.	1,091 s.u.
Maintenance of railway bed – tracks including completion of the railway bed	122 km	102 km
Maintenance of railway bed - switches including completion of the railway bed	314 s.u.	275 s.u.
Setting up contact-free tracks, welding – tracks	164 km	134 km
Setting up contact-free tracks, welding – switches	351 s.u.	333 s.u.
Replacement of rails	214 km	181 km
Replacement of railroad ties including height adjustment of the rail	149,074 pcs.	107,455 pcs.

## V. Modernization and Development of the Railway Infrastructure



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

- modernization of railway transit corridors;
- modernization of crucial railway junctions within the corridors;
- electrification of selected tracks;
- preparation and implementation of projects introducing “Global System for Mobile Communication for Railway” (GSM-R) and “European Train Control System” (ETCS) on tracks and ensuring interoperability of tracks included in the European railway system;
- rationalization actions;
- optimization and reconstruction of other tracks;
- enhancement of safety at railway crossings;
- construction of new train stops, shelters, platforms and subways.

### **Modernization of Railway Transit Corridors**

In 2008, work proceeded with the modernization of railway transit corridors (TŽK). The 3rd Railway Transit Corridor runs in the path from the state border with Slovakia via Mosty u Jablunkova – Dětmárovice – Přerov – Česká Třebová – Prague – Pilsen – Cheb to the state border with Germany. On the branch Mosty u Jablunkova – Dětmárovice, construction work proceeded with “Optimization of the section state border of Slovakia – Mosty u Jablunkova – Bystřice nad Olší” with anticipated completion in 2010. The second construction between Bystřice nad Olší and Český Těšín is ready to be implemented in 2009 and project works on the third construction Český Těšín – Dětmárovice are proceeding. On the branch between Přerov and Česká Třebová, the last construction of this section “Modernization of the section Červenka – Zábřeh na Moravě” was completed in 2008.

In 2006, the construction plan "Optimization of the section Pilsen – Stříbro" was implemented along the section between Prague and Cheb, and it will be completed shortly. In November 2007, the plan for the "Optimization of the section Planá u Mariánských Lázní – Cheb" was implemented and in May 2008, construction began on the "Optimization of the section Stříbro – Planá u Mariánských Lázní". Anticipated completion of these two constructions and thus the entire section from Pilsen to Cheb is projected for 2010. In October 2008, the first construction project between Prague and Pilsen, "Optimization of the railway section Beroun – Zbiroh", began, and the anticipated year of completion is 2011. In 2009, the construction of Zbiroh – Rokycany is anticipated to start. Furthermore, project work proceeds with the transit through the junction Pilsen and with the construction of Prague – Beroun and Rokycany – Pilsen where extensive tunnel shifting of the track is designed to significantly reduce travel time.

In 2008, the construction of "Optimization of the railway section Strančice – Prague Hostivař" was completed on the 4th Railway Transit Corridor Horní Dvořiště – České Budějovice – Prague and the construction projects for the "Optimization of the section Horní Dvořiště – České Budějovice", "Modernization of the section Veselí nad Lužnicí – Tábor – 1st part, Doubí u Tábora – Tábor" and "Optimization of the section Benešov u Prahy – Strančice", are still being implemented but will be completed in 2009. In the first half of 2009, the construction of the "Modernization of the section Votice – Benešov u Prahy" will commence. Furthermore, project work for all the other construction on the 4th Railway Transit Corridor is in progress so that the implementation may progressively follow one after another according to the approved timetable.

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

In addition to the modernization of railway transit corridors, significant railway junctions have also been modernized. The objective of this modernization is to provide technical parameters relevant to connecting corridor lines. Transits through the railway junctions Děčín, Ústí nad Labem, Choceň and Bohumín are completed. Transits through the railway junctions of Kolín and Břeclav are being implemented. The "Modernization of the western part of the railway station Prague, main station" and "New Link" between Prague, main station and Prague-Libeň, which are a part of the transit through the railway junction Prague and shall allow capacitive and fast connection of 1 TŽK to the main station in Prague by building two double-track tunnels and connecting flyovers, were delivered for the operation. The construction of the "New Link" is followed by the "Modernization of the railway section Prague Libeň – Prague Běchovice", which is also being implemented. This project will make this section three-track because it is mainly burdened by heavy suburban traffic. This section is followed by the construction of "Prague Holešovice – Prague Libeň, reconstruction AB", which has also been delivered for the operation, and "Modernization of the railway section Prague Běchovice – Úvaly" with an anticipated start date in 2010.

In 2007, the construction of "Brno – 1st part of the storage sidings, 1st phase" began and it is the first phase of the reconstruction of the Brno railway junction. Furthermore, there are plans for transit construction through the junctions of Prague, Brno, Pilsen, Píseň, Ústí nad Orlicí, Pardubice, Česká Třebová and Olomouc. Projects for the sections Prague Holešovice – Prague Bubeneč have been developed, they shall complete the highway of corridor 1 through Prague junction and for the sections Prague Hostivař – Prague, main station and Prague, main station – Prague Smíchov, which provides connection for the 3rd and 4th corridors to Prague junction.

We are preparing intensively for the "Modernization of the section Prague – Kladno" which shall provide a fast and capacitive transport line between Prague and conurbation of Kladno and at the same time it will enable a high-quality railway connection to the international airport Prague Ruzyně.

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

Significant investment in the electrification of lines and power-supply systems, including the completed construction of the electrification of the railway section Letohrad – Lichkov, were put into operation, in addition to the new traction substation in Jablonné nad Orlicí. (as it was originally written, the first sentence was a fragment, I hope this doesn't alter the intended meaning) This electrification construction brings about enhanced track capacity of a gradient- and power-challenging section to the border crossing Lichkov – Miedzylesie (Poland). Electrification of the section Ostrava Svinov – Opava and Ostrava main station – Ostrava Kunčice was completed, and will provide for higher quality suburban traffic in the Ostrava region.

Reconstruction of the traction substation in Červinka resulted in enhancing efficiency on one of the longest intersubstation sections on a highly-busy section Česká Třebová – Přerov. There is ongoing work on the electrification of the section České Budějovice – České Velenice and electrification of České Velenice – Veselí nad Lužnicí has begun.

There is project preparation for the electrification of a gradient-challenging section Brno – Jihlava, electrification of sections Lysá nad Labem – Milovice and Otrokovice – Zlín – Vizovice and reconstruction of traction substations Týniště nad Orlicí and Pečky.

### **Preparation and implementation of projects concerning the installation of GSM-R a ETCS systems, providing interoperability of lines integrated into the European Railway System**

In early 2009, the construction of GSM-R system in the railway section Kolín – Česká Třebová – Brno – Břeclav shall be completed. Preparation plans for the construction of GSM-R on 2nd Railway Transit Corridor Břeclav – Přerov – Petrovice u Karviné has been completed, and will be implemented in 2009–2010 and preparation for constructions of GSM-R in the section Česká Třebová – Přerov and Ostrava – state border SR is in progress.

In the section of Poříčany – Kolín implementation of the pilot project of European Train Control System ETCS is ongoing. Preparatory documentation for the construction ETCS in the section of Kolín – Česká Třebová – Brno – Břeclav is being developed. The construction of "Interoperability in the railway section Brno – Břeclav" is in the phase of implementation with an anticipated completion date towards the end of 2009.

### **Rationalization Events**

Within the rationalization program, the large "Reconstruction of the Communication Signalling Device Krnov" project has been completed.

Smaller-scale projects which have also been completed are:

- supplementing self-reversible point-operating apparatuses in the railway station Blíževedly;
- closing interlock No. 2 in the railway station Nýřany and interlocks No. 1 and 2 in the railway station Písečná;
- closing crossing keeper's stands in km 4,420 a 4,264 of the section Bílý Potok – Raspenava;
- closing signal boxes Bohuslavice u Kyjova and Dolina.

The following construction plans are in the final phases of implementation: "Rationalization of the section Zdice – Protivín", "Longdistance control of the signalling device Louny – Peruc" and "Long-distance control of the signalling device Hradčovice – Luhačovice".

The "Long-distance control of the signalling device Přerov – Polanka n/O", "Long-distance control of the signalling device Pilsen – Klatovy and "Long-distance control of the signalling device Karlovy Vary – Potůčky" have begun and will be completed during the course of 2009.

Preparation for the implementation of the "Rationalization of the section Jaroměř – Stará Paka – Žel. Brod 2nd part", "Long-distance control of the signalling device Střelice – Hrušovany 1st part", "Rationalization of the railway junction Trutnov – Střed and Trutnov – Poříčí" and the "Long distance control of the track section Krnov – Jindřichov in Silesia" are being finalized. There are ongoing projects on the second Central Dispatching Station Prague, which shall control the operation on corridor lines in the Bohemia region.

### **Optimization and reconstruction of other lines**

In 2008, there were a number of reconstruction projects on lines or track sections, e.g. reconstruction of the section Jihlava – Havlíčkův Brod, reconstruction of the section in the 1st Vinohrady Tunnel, reconstruction of the 1st track rail Ústí Střekov – Boletice nad Labem, reconstruction of the rail No. 2 Bohosudov – Teplice and others. In addition to that there are plans for the modernization of the section Hradec Králové – Pardubice – Chrudim to enhance the quality of service in this conurbation and the modernization of the section Brno – Přerov which will provide a faster connection between Brno and Ostrava. The new projected line in the section of Choceň – Ústí nad Orlicí will remove the bottleneck on the 1st Transit Corridor and to accelerate the traffic.

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

### **Enhancing safety at railway crossings**

During 2008, special attention was paid to railway crossings representing critical crash spots for road and railway vehicles. Under the program "Enhancing safety on railway crossings", dozens of reconstructions of railway crossings and signalling device (PZS) were implemented in 2008, e.g. the reconstruction of PZS and crossing structure in km 23,673 on the section Břeclav – Přerov, reconstruction of the crossing device on km 1,245 Studénka – Bílovec, reconstruction of PZS on km 99,850 of the section Kunovice – Veselí nad Moravou, construction of PZS on km 3,434 of the section Liberec – Zittau, reconstruction of PZS on km 58,455 and 59,263 Cejřov on the section Havlíčkův Brod – Pardubice – Rosice n. L., reconstruction of the crossing security in km 76,843 and km 77,033 Týniště nad Orlicí – Letohrad, construction of PZS on km 62,124 of the section Strakonice – Volary, construction of PZZ in km 62,771 of the section Strakonice – Volary, construction of PZS on km 65,097 of the section Strakonice – Volary, reconstruction of the crossing on km 3,325 and 3,717 of the section Kostelec u Jihlavy – Slavonice and others. There was continued preparation for a number of construction projects focusing mainly on enhancing safety on railway crossings. Construction plans were successively drafted throughout the year, completed and put into use. There was also preparation for construction plans with anticipated implementation for 2009.

### **Construction of new train stops, shelters and platforms**

In order to enhance the quality of travelling, there were preparations and implementations of new railway stops, shelters and platforms for passengers. For example, new railway stops for Písek – Dobešice, a train stop for Řípec and Kostelec u Jihlavy – Masna, a waiting shelter at the stop Obora u Kaznějova, Borovička and Valy u Přelouče were also put into use.

## VI. Utilization of the Railway Infrastructure by Carriers



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

As of 1.1.1995, the Czech Republic introduced a standard system of granting licences to operate rail transport, and since 1.5.2004 there has also been a licence to operate rail transport granted by EC member state authority.

The number of carriers utilizing the railway infrastructure has decreased slightly compared to 2007. One reason for that is the termination of some civil associations that had performed occasional rail transport with historical trains.

### Course in the number of carriers (as of 31.12. of the relevant year):

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

### Performance of carriers in the period of 2003–2008:

Year	2003	2004	2005	2006	2007	2008
Passenger [trkm]	108,413,881	109,374,908	113,298,184	116,302,650	118,387,288	121,939,150
Freight [trkm]	45,500,610	44,035,824	41,458,299	42,084,461	43,466,460	43,685,964
<b>Total [trkm]</b>	<b>153,914,491</b>	<b>153,410,732</b>	<b>154,756,483</b>	<b>158,387,111</b>	<b>161,853,748</b>	<b>165,625,114</b>
Passenger [thousand gtkm]	21,453,332	21,266,766	21,978,020	22,594,373	23,103,133	24,155,227
Freight [thousand gtkm]	38,995,763	37,494,727	36,162,955	37,857,278	39,250,794	37,996,173
<b>Total [thousand gtkm]</b>	<b>60,449,095</b>	<b>58,761,493</b>	<b>58,140,975</b>	<b>60,451,651</b>	<b>62,353,627</b>	<b>62,151,400</b>

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

#### Share of individual carriers performing freight transport in 2008:

Carrier	gtkm	trkm
ČD Cargo, a.s.	92.28%	87.10%
OKD, Doprava, akciová společnost	3.14%	2.15%
UNIPETROL DOPRAVA, s.r.o.	2.14%	1.64%
VIAMONT Cargo a.s.	0.50%	0.47%
VIAMONT a.s.	0.43%	0.38%
České dráhy, a.s.	0.37%	2.78%
Trafová strojní společnost, a.s.	0.30%	1.07%
BF Logistics s.r.o.	0.16%	0.20%
Ostravská dopravní společnost, a.s.	0.16%	0.16%
Other carriers	0.52%	4.05%

#### Share of individual carriers performing passenger transport in 2008:

Carrier	trkm	gtkm
České dráhy, a.s.	99.14%	99.82%
VIAMONT a.s.	0.63%	0.14%
OKD, Doprava, akciová společnost	0.12%	0.02%
Other carriers	0.11%	0.02%

The track access charge for freight and passenger trains is a regulated price. Maximum prices are set by the Ministry of Finance. In 2008 there was no change. The amount of track access charges for freight transport has been the same since 1.7.2005. As for passenger transport, the amount of track access charges has not changed since 1.1.2003. As of 1.1.2009, however, there was a reduction of the maximum prices for track access by approximately 20%.

SŽDC, as the allocator by authority of the Railway Act allocates the path capacity at a price agreed on by currently valid price regulations through specifying framework time routes of trains. SŽDC is obliged (during the process of path capacity allocation) to ensure undiscriminating track access for the carriers, aiming for a maximum utilization of the path capacity. Also, SŽDC issues the "Network Statement – national and regional", publishing detailed conditions for the path capacity allocation.

In connection with the transfer of the rail operator's function, as of 1.7.2008, SŽDC took over the obligation to deliver the timetable. The timetable for the period of 2008/2009 effective from 14.12.2008 was issued fully under the competence of SŽDC. The path capacity allocation for the timetable 2008/2009 based on the Network Statement was requested in total by 16 carriers, out of which four carriers requested the capacity allocation for the passenger transport for the purpose of providing basic transport services of the state. After effective coordination, carriers were allocated the capacity and their requests were processed into the timetable for 2008/2009.

On 5.12.2008, SŽDC published the Network Statement – national and regional, valid for the timetable 2009/2010. This document has been redeveloped following the common structure of RailNetEurope. The deadline for carriers' requests for path capacity allocation is 11.4.2009.

#### In 2008, SŽDC allocated the total of 4,594,709 paths within the process of the capacity allocation:

Type of the allocated capacity	Routes 2005	Routes 2006	Routes 2007	Routes 2008
Within the timetable	4,461,142	4,680,458	4,355,258	4,237,416
Within the change of the timetable	171,564	68,720	77,986	163,433
Ad hoc standard	26,430	18,058	60,408	43,169
Requests in the residual capacity	36,723	50,832	78,299	150,691
<b>Total</b>	<b>4,695,859</b>	<b>4,818,068</b>	<b>4,571,951</b>	<b>4,594,709</b>

## VII. Rail Operation Safety



Further to the transfer of rail operator's function from ČD to SŽDC, implemented as of 1.7.2008, SŽDC also assumed obligations related to the provision of safe rail operation on national and regional rail owned by the state. Ensuring the Safety System and meeting obligations laid down in § 49 Act No. 266/1994 Coll., on Rail, as amended is an integral part of the rail operation. The aforementioned legal regulation deals with accidents in rail transport. In the new SŽDC organization structure effective from 1.7.2008, this area is managed by the Department of Rail Operation Safety. In the current system ensuring the rail operation, ČD temporarily performs some of the activities for SŽDC related to reporting the accident, its investigation, discovering causes and circumstances surrounding the accidents, proposing responsibility and the "Evaluation of causes and circumstances surrounding the accident".

The following overview about the number of accidents is related to the period from 1.7.2008 to 31.12.2008, when SŽDC assumed its rail operator's function, i.e.:

Category of the contingency	total number
Major casualties	3
Accidents	211
Risk to safety	433
<b>Total</b>	<b>647</b>

Following SŽDC's investigation – as the rail operator – of the major tragedy which occurred in the railway station Studénka on 8.8.2008 during which the EC 108 train crashed into a fallen structure of the road flyover and resulted in the deaths of 8 people and the injuries of 93 people, it was determined that the responsibility lay with the contractor of the road flyover. As for the accident on 13.9.2008 between the railway stations Mohelnice and Moravičany when the freight train hit the end of another standing freight train (engine driver was killed), the operator of the rail service was held responsible. With the third major casualty on 10.11.2008 between the railway stations Hlinsko v Čechách and Ždírec nad Doubravou, when an engine passenger train crashed head-on into a shunting unit (16 people injured), the carrier ČD Cargo, a.s. was held responsible.

Out of the total number of 647 accidents, SŽDC was the responsible rail operator in 144 of the accidents, out of which, in 27 cases the responsibility was up to ČD as the operator of the rail service.

The total amount of the SŽDC's cost associated with handling the consequences of these accidents, and with the provision for safe rail operation for the monitored period, amounted to approximately CZK 26 MM.

The number of accidents, for the second half of 2008 and the amount of SŽDC cost spent on them is comparable to the previous period.

## VIII. Assets Management



SŽDC manages state assets registered in two accounting spheres. The accounting sphere involving the railway infrastructure and the accounting circle involving the other assets specified in the Amendment to the Act No. 77/2002 Coll. (HOM). The right concerning the management of the railway infrastructure became effective as of 1.1.2003 in compliance with the Act No. 77/2002 Coll. Through the Amendment to the Act No. 77/2002 Coll., effective since 1.7.2004, the Ministry of Transport was no longer entitled to manage the assets specified in the Amendment to the Act No. 77/2002 Coll., and simultaneously SŽDC became authorized to dispose of these assets.

Temporarily unnecessary assets of the railway infrastructure are rented to third parties. Revenues from these assets amounted to CZK 62,1 MM. Permanently unused assets are discussed to be sold off in accordance with the Act No. 77/2002 Coll., including the government's acceptance with the exception of a transfer to state organizations when the government's acceptance is not needed.

In 2008, a total of 103 business cases were closed where the agreed purchase price represents the amount of CZK 26,9 MM. The assets specified in the amendment to the Act No. 77/2002 Coll. are rented till the sale effectuation. 2008 revenues amounted to CZK 36,2 MM.

The assets, which are transferred through the process of privatization, are dealt with in accordance with the Act No. 77/2002 Coll., as amended, and with the Act No. 92/1991 Coll., as amended. The income is remitted to SŽDC through the Ministry of Finance. In 2008, revenues from privatization amounted to CZK 741,7 MM. Other assets specified in the Amendment to the Act No. 77/2002 are sold in the form of direct sale. In 2008, three items at the total amount of the agreed purchase price of CZK 8,2 MM were effectuated. Revenue from the sale of these assets is designated to settle the debt of the former Czech Railways, state organization.

The same procedure is going to be applied in 2009. The sale proposals on the unnecessary assets shall be submitted through the Ministry of Transport in order to obtain the acceptance of the Czech Government. As for the other sphere assets, proposals regarding the management approach shall be submitted for comments at the Ministry of Transport and after the adoption of the SŽDC Managing Board this agreed management approach will be implemented.

## IX. Company Economic Activity



### A. Operation and Operability of the Railway Infrastructure

The cost of providing operation and operability of the railway infrastructure amounted to CZK 14,354MM in 2008 and are comprised of the costs resulting from a contractual relationship with Czech Railways and SŽDC's own costs related to the following activities.

**This cost was funded by the following sources:**

Revenues from the track access	CZK 6,218 MM
of which:	
– freight transport	CZK 4,214 MM
– passenger transport	CZK 1,656 MM
– other carriers (except for ČD and ČD Cargo)	CZK 348 MM
Subsidies from State Fund of Transport Infrastructure (SFTI)	CZK 7,674 MM
Non-investment subsidies from the state budget	CZK 200 MM

## B. Modernization and Development of the Railway Infrastructure

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

Within the implementation of investment actions relating to the railway infrastructure, assets in the amount of CZK 22,904MM were purchased in 2008:

Of which:	
– SFTI subsidies for modernization	CZK 21,100 MM
– EU fund	CZK 1,752 MM
– contributions from cities, municipalities, regions and other entities	CZK 52 MM

## C. Settlement of the liabilities of the former Czech Railways, state organization

As of 1.1.2003, SŽDC assumed the current liabilities of the former Czech Railways, state organization, in the total amount of CZK 10,734MM. At present, all these liabilities have been settled, excluding those representing the subject of lawsuits, allowances and contributions to the pensions of former employees. Accruals have been established for these liabilities.

At the same time, SŽDC assumed, as of 1.1.2003, long-term liabilities by virtue of overdrawn bank loans of the former Czech Railways, state organization. Since these liabilities are guaranteed by the state, the Ministry of Finance makes continuous payments on principals and interest of these loans based on relevant credit contracts. As of 31.12.2008, these liabilities amount to CZK 22,639MM (out of which CZK 16,000MM towards banks, CZK 6,639MM towards the state). The maturity of the liabilities is set on a gradual basis, currently up to 2020. A part of the long-term liabilities is also SŽDC's obligation by virtue of bonds issue in the amount of CZK 7,000 MM payable in 2011.

Towards the end of 2005, the Czech Government adopted Resolution No. 1553 specifying the method of settling SŽDC liabilities towards the state until their redemption. Following this Government resolution, and based on the contract between the Ministry of Finance and SŽDC, in 2008 there was a decrease of SŽDC liabilities towards the state by CZK 6,369MM. This Government Resolution further confirms that SŽDC is considered non-owing when following the defined way of dealing with SŽDC liabilities.

As of 1.1.2003, SŽDC also assumed defined receivables of the former Czech Railways, state organization, resulting from business relations in the amount of CZK 1,935MM. Settlement of these liabilities has been under way since 2003 in the form of arranging schedule of payments with debtors, legal proceedings, debt collection through bailiffs or distrainers, and transferring debt or amortizations of unexactable claims. As of 31.12.2008 there are outstanding claims in the amount of CZK 208MM to be settled, of which the charged interest represents the amount of CZK 15,6 MM. In 2008, a bloc of claims in the amount of CZK 11,6MM was transferred.

In 2009, SŽDC will proceed with the settlement of other remaining liabilities and with the transfer of liabilities with respect to the interest of potential transferees. It relates to claims from business relations long after the due date. The period of limitation expires with some claims, without the legal collection including the distraint order being effective. The limitation shall result in increased volume of claim amortization.

## D. SŽDC Economic Result

For the 2008 accounting period, SŽDC showed a profit after tax of CZK 1,123 MM. The following items had the most significant impact on the economic results of SŽDC in 2008 (in CZK MM):

Payment for track access	6,218
Difference between revenues and cost from the sale of electric traction and non-traction power	140
SŽDC Remission of a debt according to CR Government Resolution No. 1553	6,369
Subsidy from SFTI	7,674
Non-investment subsidies from the Ministry of Transport CR	200
Service	-12,366
Personal Costs	-2,499
Book depreciation of SŽDC assets (including the railway infrastructure)	-4,182
Change of reserves and provisions	-34
Balance of other operating revenues and expenses	1,432
<b>Operating Economic Result</b>	<b>+2,952</b>
Interest income and expenses	-1,041
Exchange Rate Difference	-333
Other financial income and expenses	-62
<b>Economic Result before tax</b>	<b>+1,516</b>
Deferred Tax	-393
<b>Economic Result for the accounting period after tax</b>	<b>+1,123</b>

The structure of revenue and cost items and their accounted volumes differ from past years due to the transfer of some activities from ČD to SŽDC in relation to the Amendment to Act No. 77/2002 Coll. The cost items related to transferred activities comprise the 2008 costs which arose from the contractual relation with ČD and SŽDC's own expenditure on these activities.

Payment for railway infrastructure use represents the track access charge from freight and passenger carriers and is a significant revenue item for SŽDC.

As of 1.1.2008, SŽDC became – on the basis of granted licence and certification – a distributor and seller of traction and non-traction electric power. This new business-oriented activity is reflected in the area of both costs and revenues.

Significant revenue item is the settlement of SŽDC liabilities in compliance with CR Government resolution No. 1553, which represents a book entry, only without any receipt of financial means.

SFTI subsidies are the most important revenue item of SŽDC, which is designated for repair and maintenance of the railway infrastructure.

The most significant cost item is the area of services. Items related to this area of providing operability of the railway infrastructure, associated with activities transferred from ČD to SŽDC, comprise 2008 costs resulting from a contractual relation with ČD and SŽDC's own costs spent on these activities which are calculated in the area of services – in particular repair and maintenance. Other costs associated with transferred activities have also been calculated in the consumption of material, energy and staff costs since the 2nd half of 2008.

Staff costs show some increase compared to last year, as a result of the personnel transfer from ČD to SŽDC since 1.7.2008.

One of the significant operating costs of 2008 was the depreciation of the railway infrastructure.

The change of reserves and provisions relates to updating reserves and accounting provisions on claims and fixed assets.

The balance of other SŽDC operating revenues and expenses includes other revenue and cost items, e.g. revenues from fixed assets and material sale reduced by net book value, activation, material consumption and our own energy consumption, taxes and fees and other operating revenues and expenses.

Financial cost in terms of cost interest results mainly from the bank credit interest. As specified in the Annex to the financial statement, this interest is paid to bank institutions by the Ministry of Finance CR on behalf of SŽDC, which results in the increase of SŽDC liabilities to the state. A part of the interest paid by the Ministry of Finance is also the interest on bonds issued by SŽDC at the nominal value of CZK 7,000 MM in 2004. The revenue of this issue is purposefully bound to the settlement of the debt of the former Czech Railways, state organization.

Exchange rate differences result from foreign currency liabilities, loans and interest, retranslated using the exchange rate valid as of 31.12.2008. Given that the Czech currency in the second half of 2008, in particular towards the end of the year, weakened markedly against other currencies, in which the particular loans were denominated, the exchange rate differences reached negative values and had a negative impact on SŽDC's economic results.

## **E. Anticipated Economic and Financial Situation in 2009**

In 2009, SŽDC economic activity will be largely influenced by the cost of providing operation of the railway infrastructure and its operability, by the revenues from track access charges (based on the resolution of the Ministry of Finance CR, the maximum track access charges shall be reduced by 20% in 2009 and it can be expected that due to the worldwide economic crisis the volume of transportation will also be reduced on the part of carriers), subsidies from SFTI and non-investment subsidies from the Ministry of Transport of CR, the amount of SŽDC liabilities towards the state approved by the government, the amount of asset depreciation, and production and spending of reserves and provisions, the amount of loan interest, the influence of exchange rate imbalances from converted payments and the balance of loans and interest.

## X. Human Resources, Payroll and Benefits



As of 1.1.2008, SŽDC had 659 employees. As of 1.7.2008, SŽDC became the operator of national and regional rail owned by the state. With the transfer of the aforementioned activities, SŽDC assumed the following organizational units:

- the Regional Infrastructure Administrations;
- Railway Geodesy Administrations;
- Railway Energy Administration;
- Technical Centre of Infrastructure;
- Fire Department.

Furthermore, it took over the Emergency Management Department and a number of employees from some other professional sections of the ČD Directorate-General, thus largely increasing at one time the number of the organization's staff. In the second half of 2008, the staff capacity was completed with professional staff and the optimization of the staff capacity had been proceeding. As of 31.12.2008, SŽDC had 10,545 employees.

SŽDC had to adjust to this development in terms of organizing and providing conditions for the development of human resources; it had to ensure higher staff and professional qualifications with specialized technical expertise, but also provide a larger spectrum of activities for further training. Obligatory training systems had to be approved and completed as well as the training of operational professions which often sets the scope of knowledge and examining by valid legal regulations, or in-house regulations. The proposed process was successfully managed and at the same time, basic conditions for training new employees with necessary qualifications were prepared.

In terms of remuneration there were wage-payment plans applied, resulting from the SŽDC Company Collective Agreement and with the employees of the organizational units transferred from Czech Railways in accordance with the collective agreement of this company. Towards the end of 2008, both systems were united for the next period after negotiations.

As for as the further care of employees, there is permanent preventive care provided for the staff of organizational units. In line with valid legal regulations, including the Company Collective Agreement, throughout the year there are employees' amenities available, e.g. in the form of travel benefits, possibility to obtain employer's contribution to the pension scheme and life insurance. The Cultural and Social Needs Fund provides employees with meal allowances, cultural and sports activities, including participation in international events; it also offered holiday with employer's contribution etc. At the same time there is quality enhancement of the work place facilities and their social base.

Necessary attention is traditionally paid to safety and health protection at work where SŽDC has been achieving excellent results, primarily thanks to a system of regular workplace monitoring and staff training, including instruction on preventing risks that may arise at a common workplace with other employers.

Towards the end of 2008, a new SŽDC Company Collective Agreement was concluded for the period of 2009–2013 and Principles for development and utilization of the Cultural and Social Needs Fund for 2009 were adopted.

## XI. Environmental Protection



Despite the generally accepted environmentally-friendly nature of railway transport, especially in comparison with road transport – its biggest competitor, it is necessary to deal with and to minimize various negative impacts of this transport mode as well, including noise, vibration, dustiness, waste accumulation, air pollution etc.). Environmental protection and improvement represents an integral part of providing operability and modernization of the railway infrastructure.

We need to deal with issues of eliminating old ecological burdens; there are risk analyses within the perspective of the possible use of European funds. A register in the field of substances possibly containing PCB were completed; there is continuous settlement of ecological accidents. With organizational units being transferred from ČD (as of 1.7.2008), SŽDC also assumed matters related to air protection, accredited measurement of emissions of heat and technological sources (boiler rooms, joiner workshops, paint shops), water management issues (drinking and waste water), waste economy, weed killing and other unwanted vegetation, traffic noise and vibration (solutions for noise exposure including the arrangement of a necessary measurement of noisiness and vibration, which are also an integral part of ongoing processes of leasing or selling residual assets e.g. gatehouses, flats) for example.

The field of environmental protection is also an important and unavoidable part of practically all investments, in particular the ongoing construction of railway corridors where the increase of demands by stricter legislation is reflected by increase in cost.

SŽDC as a state-authorized railway infrastructure administrator has to deal with environmental issues in cooperation with carriers, in particular with ČD, even being conscious of the fact that the public (in part also state administrations) continue to regard railway transport as one complex unit.

## XII. International Relations



SŽDC considers international cooperation one of its most significant activities. The Czech Republic, as an EU member, enforces principles of European transport policy in which it also actively participates. The international activity may be divided into two areas:

- bilateral international cooperation with other states, particularly neighbouring ones;
- active involvement in international organizations.

In order to become a relevant transport system, the European Railway has to be able to offer a high-quality and reliable network, especially for long-distance freight transport. It is necessary to provide liberalized access and to implement interoperable parameters as soon as possible and to complete the legislative framework and to harmonize conditions for particular transport modes.

### Bilateral cooperation

In 2008, assuming further responsibilities, the SŽDC also strengthened international bilateral relations which were maintained from the central level as well as in relevant regions by experts of Regional Infrastructure Administrations.

In 2008, the following projects were internationally discussed and coordinated:

1. with the German railway infrastructure company DB Netz
  - Preparation for the renovation of the railway crossing Dolní Poustevna – Sebnitz
  - Construction of Cheb state border – Marktredwitz
2. with the Austrian railway company ÖBB
  - Coordination of traffic closures for Horní Dvořiště – Linz
  - Břeclav – state border – Hohenau (Vienna)
  - The electrification of Znojmo – Šatov – Retz
3. with Slovak Railways ŽSR
  - Preparation for the reconstruction of a cross-border bridge across the Morava river
  - Coordination of activities within the ongoing construction for the Optimization of the section state border SR – Mosty u Jablunkova – Bystřice nad Olší
4. with Polish Railway PKP
  - Electrification of the railway section Letohrad – Lichkov – state border with Poland

## Cooperation with international railway organizations

Also in 2008, SŽDC experts attended public consultations of the European Commission dealing with legislative intentions (directive Eurovignette, multi-annual contracts between the state and the railways, railway packages, etc.). SŽDC is a full member and is involved in the work of the International Union of Railways (UIC) and the Community of European Railway and Infrastructure Companies (CER).

**International Union of Railways (UIC)** with its head office in Paris. The relationship between SŽDC and UIC was developing coincidentally over the course of previous years. In 2008, SŽDC became the only representative of the Czech Republic in the UIC Infrastructure Forum and got involved in a number of projects. The transfer of further activities from ČD to SŽDC in mid-2008 brought about a larger array of other projects.

**Community of European Railway and Infrastructure Companies (CER)** with its head office in Brussels. This organization associated approximately 70 railway organizations in 2008, both carriers, unitary railways and infrastructure managers. CER thus represented nearly 100% of all European railway organizations. Mr. Jan Komárek, SŽDC Director General, defended his position as the vice-president of this significant organization in 2008 and thus SŽDC could actively influence strategic decisions in European Transport Policy. SŽDC specialists mainly participated in meetings of CER working groups. SŽDC was running the working group Corridor E. The working group “CER Assistants” was dealing with different topics at its regular meetings related to railway issues in the context of EU transport policy and cooperation with non-European railways.

**Association of European Infrastructure Managers (RNE)** – with its head office in Vienna. Following the transfer of rail operator’s function from ČD to SŽDC, effective as of 1.7.2008, SŽDC joined the Association of Infrastructure Managers RailNetEurope (RNE). On 26.11.2008, the RNE General Assembly accepted SŽDC as a regular member of the association. It thus replaced the current representative of the Czech infrastructure manager – ČD – which terminated its activity in RNE as of 31.12.2008. This association is represented by infrastructure managers, rail operators and path capacity allocators. It currently involves 33 companies from 24 European countries. The RNE’s main objective is to facilitate carriers’ access to the infrastructure for international transport. SŽDC specialists got involved in the tasks of all RNE working groups.

## XIII. Subsequent Development



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

Throughout 2008, attention and activities of SŽDC staff were focused on the implementation of further steps in the ongoing process of railway sector restructuring. Those implemented steps aimed to accomplish proper implementation of the European legislation resulting from the "First Railway Package" and simultaneously create optimal conditions for the railway market and for further development of railway transport both within the state and particularly within an integrated Europe. In this context, SŽDC underwent significant changes last year.

Following the Government Resolution related to the Amendment to Act No. 77/2002 Coll., there was a transfer of selected activities of the rail operator provided by Czech Railways, joint-stock company to SŽDC. As of 1st July 2008, the function of the operator of the national and regional rail owned by the state and the performance of some activities included in the rail operation, including relevant material, technological and staff capacities, was transferred from Czech Railways, joint-stock company to the Railway Infrastructure Administration, state organization.

Activities related to rail service, including dispatching control, have been maintained at ČD for the time being as the staff providing this service was also involved in other activities not related to the rail operation. Also, the transfer process of the residual assets related to the performance of duties connected with the rail operation has not been completed.

Throughout 2009, there shall be discussions about further steps within the process of completing the transfer of rail service functions. In the first place, it involves the transfer of rail service and dispatching control of operation from Czech Railways, joint-stock company to the Railway Infrastructure Administration, including the transfer of staff, technical and material capacities. It is further anticipated that the transfer of assets related to activities performed within rail operation and representing the railway infrastructure will be completed. Integrating objective assets into SŽDC management represents the logical connection of all infrastructure components.

Full implementation of the aforementioned steps shall result in completing the process of function transfer and creating SŽDC as a fully-responsible rail operator by the directive of the Railway Act and requirements of European legislation for independence of primary functions of the rail operator.

In order to provide the aforementioned processes, SŽDC shall, like in the previous period, implement changes resulting in enhancing the efficiency of provided activities. Attention shall be paid to restructuring of executive organization units after performed changes which resulted from the process of assuming selected activities of the rail operator, mainly in the section of personnel and material provision. In this context, due care shall be paid to regulation- and norm-setting activity which will aim to monitor and introduce uniform standards in the care for the quality of materials and technologies applied to the operation of the railway infrastructure. Such an objective can be achieved only with the support of professionally skilled specialists whereas close attention shall be paid to the development of technical documentation, in particular to technical qualitative conditions of the railway infrastructure elements.

In order to repair and maintain the railway infrastructure more effectively and to improve its quality, in the years of 2007 and 2008, based on the assignment of the Ministry of Transport and Railway Infrastructure Administration, there were independent assessments developed to examine the actual state and performance of maintenance and repair of the railway infrastructure and real possibilities for its improvement. The result of this work was recommendation to earmark the so-called outsourcing in the field of maintenance and repair of the railway infrastructure and this shall be provided by suppliers. Although the prepared plan was not finished, the process will be monitored in 2009.

As of the 1st of January 2008, the Railway Infrastructure Administration became executor of activities resulting from the licence to trade in electric power, under the licence granted by the Energy Regulatory Authority. The function of electric power distributor in a defined location of a local distribution railway system began. Following the transformation process there was an increase of supply points of external customers. For all important supplies and traction substations there are plans for supplementing and extending the system of central energy control. One of the most significant events was negotiating and approving the possibility of recuperation by electric tractive units with carriers and superordinate operators of distribution systems. Subsequently, a trial run of electric power recuperation by electric tractive units began on selected sections of the railway infrastructure.

In 2009, SŽDC's key activity is still going to be the monitoring of the infrastructure's scope in relation to the demand for railway transport. Means to provide maintenance and repair the railway infrastructure, i.e. to provide its operability, shall be primarily centred on lines with significant transportation potential for the future.

Providing operability of the railway infrastructure is closely related to its modernization and development. Modernization of railway transit corridors, lines integrated into the European railway system, enhancement of track speed on other selected railway sections and railway junctions or electrification are understood as the means of enhancing the attractiveness of railway transport.

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

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

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

# XIV. Financial part 2008

## Independent Auditor's Report

To the Management of Správa železniční dopravní cesty, státní organizace

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

Identification number: 70994234

Principal activities: Administration of State assets forming railway routes

### Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 28 May 2009 on the financial statements which are included in this annual report in Section XIV:

"We have audited the accompanying financial statements of Správa železniční dopravní cesty, státní organizace ("SŽDC"), which comprise the balance sheet as of 31 December 2008, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Správa železniční dopravní cesty, státní organizace as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

#### Emphasis of Matters

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

As discussed in Note 7.1. to the financial statements, the bulk of the payables of České dráhy, státní organizace were taken over by SŽDC under Act No. 77/2002 Coll., as of 1 January 2003. These specifically involved long-term amounts owed to banks and the State, and short-term amounts owed to suppliers, taxation authorities, health insurers, social security administrators, etc. Substantially all of the short-term payables were settled as of 31 December 2008. Long-term payables to banks are settled according to repayment schedules by the Ministry of Finance and are recharged as long-term payables to the State. The net cash inflows from SŽDC's operations are not sufficient to settle these long-term payables and hence the settlement of these payables is the subject of Czech Government Resolution No. 1553 of 30 November 2005 which set out the approach to forgiving SŽDC's payables until they are fully settled. In 2008 and 2007, payables of CZK 6.37 billion and CZK 4.57 billion, respectively, were forgiven and this amount was recognised as part of other operating income. Pursuant to Act No. 77/2002 Coll., SŽDC's payables are guaranteed by the State.

As discussed in Note 7.2. to the financial statements, SŽDC provides carriers with railway infrastructure for use in the public interest for an officially determined price which is set in accordance with Pricing Act No. 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing the railway infrastructure. As such, the financing of SŽDC's activities is dependent upon subsidies from the State and/or other entities.

As discussed in Note 7.5. to the financial statements, the useful lives of, and economic benefits associated with, the bulk of the existing fixed assets forming the railway infrastructure are dependent upon the availability of funding and future decisions regarding their renovation, modernisation and rationalisation. Due to the existing uncertainties in the above areas, the ultimate useful lives of, and economic benefits associated with, the existing fixed assets cannot be determined and accordingly no valuation adjustments have been made in the financial statements."

### Report on the Annual Report

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

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

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

In Prague on 28 May 2009

Audit firm:

Statutory auditor:



**Deloitte Audit s.r.o.**

Certificate No. 79

Represented by:



**Václav Loubek**, authorised employee



**Václav Loubek**, certificate No. 2037

## Balance sheet

full version as of 31.12.2008 (in CZK '000)

	31.12.2008			31.12.2007
	Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>	<b>183,558,152</b>	<b>81,886,735</b>	<b>101,671,417</b>	<b>91,513,235</b>
<b>B. Fixed assets</b>	<b>173,966,818</b>	<b>81,624,937</b>	<b>92,341,881</b>	<b>83,522,558</b>
<b>B.I. Intangible fixed assets</b>	<b>116,666</b>	<b>46,481</b>	<b>70,185</b>	<b>11,619</b>
B.I.3. Software	114,118	46,294	67,824	303
B.I.4. Valuable rights			-	14
B.I.6. Other intangible fixed assets	2,548	187	2,361	
B.I.7. Intangible fixed assets under construction			-	11,302
<b>B.II. Tangible fixed assets</b>	<b>173,850,152</b>	<b>81,578,456</b>	<b>92,271,696</b>	<b>83,510,939</b>
B.II.1. Land	6,330,470	36,611	6,293,859	5,720,398
B.II.2. Structures	134,651,757	70,428,848	64,222,909	65,171,411
B.II.3. Individual movable assets and sets of movable assets	19,817,593	10,704,640	9,112,953	9,049,727
B.II.7. Tangible fixed assets under construction	4,849,227	180,794	4,668,433	3,373,508
B.II.8. Prepayments for tangible fixed assets	8,846		8,846	195,895
B.II.9. Valuation difference on acquired assets	8,192,259	227,563	7,964,696	
<b>C. Current assets</b>	<b>9,537,989</b>	<b>261,798</b>	<b>9,276,191</b>	<b>7,989,621</b>
<b>C.I. Inventories</b>	<b>235,517</b>	<b>-</b>	<b>235,517</b>	<b>28,287</b>
C.I.1. Material	234,396		234,396	28,284
C.I.2. Work in progress and semifinished goods	1,000		1,000	
C.I.5. Goods	9		9	
C.I.6. Prepayments for inventory	112		112	3
<b>C.II. Long-term receivables</b>	<b>1,903</b>	<b>-</b>	<b>1,903</b>	<b>887</b>
C.II.1. Trade receivables	675		675	
C.II.5. Long-term prepayments made	1,228		1,228	887
<b>C.III. Short-term receivables</b>	<b>6,044,524</b>	<b>261,798</b>	<b>5,782,726</b>	<b>4,743,737</b>
C.III.1. Trade receivables	2,838,867	223,697	2,615,170	1,056,531
C.III.6. State – tax receivables	1,447,860		1,447,860	1,400,872
C.III.7. Short-term prepayments made	99,859		99,859	1,149
C.III.8. Estimated receivables	1,508,311	21,104	1,487,207	2,264,471
C.III.9. Other receivables	149,627	16,997	132,630	20,714
<b>C.IV. Current financial assets</b>	<b>3,256,045</b>	<b>-</b>	<b>3,256,045</b>	<b>3,216,710</b>
C.IV.1. Cash on hand	4,647		4,647	476
C.IV.2. Cash at bank	3,251,398		3,251,398	3,216,234
<b>D. I. Other assets</b>	<b>53,345</b>	<b>-</b>	<b>53,345</b>	<b>1,056</b>
D.I.1. Deferred expenses	2,133		2,133	1,056
D.I.3. Accrued income	51,212		51,212	

	31.12.2008	31.12.2007
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>101,671,417</b>	<b>91,513,235</b>
<b>A. Equity</b>	<b>60,960,446</b>	<b>47,912,337</b>
<b>A.I. Share capital</b>	<b>52,542,494</b>	<b>40,658,261</b>
A.I.1. Share capital	52,542,494	40,658,261
<b>A.II. Capital funds</b>	<b>655,656</b>	<b>622,372</b>
A.II.2. Other capital funds	655,656	622,372
<b>A.III. Statutory funds</b>	<b>944,885</b>	<b>796,288</b>
A.III.1. Statutory reserve fund / Indivisible fund	926,418	790,529
A.III.2. Statutory and other funds	18,467	5,759
<b>A.IV. Retained earnings</b>	<b>5,694,390</b>	<b>4,476,523</b>
A.IV.1. Accumulated profits brought forward	5,694,390	4,476,523
<b>A.V. Profit or loss for the current period (+ -)</b>	<b>1,123,021</b>	<b>1,358,893</b>
<b>B. Liabilities</b>	<b>40,372,762</b>	<b>43,247,453</b>
<b>B.I. Reserves</b>	<b>300,682</b>	<b>253,199</b>
B.I.4. Other reserves	300,682	253,199
<b>B.II. Long-term liabilities</b>	<b>16,446,025</b>	<b>19,142,229</b>
B.II.1. Trade payables	814,823	636,684
B.II.6. Bonds issued	7,000,000	7,000,000
B.II.9. Other payables	6,638,778	9,906,428
B.II.10. Deferred tax liability	1,992,424	1,599,117
<b>B.III. Short-term liabilities</b>	<b>7,626,545</b>	<b>5,832,736</b>
B.III.1. Trade payables	4,486,580	2,779,330
B.III.5. Payables to employees	254,357	16,141
B.III.6. Social security and health insurance payables	132,296	9,829
B.III.7. State – tax payables and subsidies	1,913,257	2,781,716
B.III.8. Short-term prepayments received	65,399	148,761
B.III.10. Estimated payables	697,377	96,938
B.III.11. Other payables	77,279	21
<b>B.IV. Bank loans and borrowings</b>	<b>15,999,510</b>	<b>18,019,289</b>
B.IV.1. Long-term bank loans	15,999,510	18,019,289
<b>C. I. Other liabilities</b>	<b>338,209</b>	<b>353,445</b>
C.I.1. Accrued expenses	267,373	267,304
C.I.2. Deferred income	70,836	86,141

## Profit and loss account

structured by the nature of expense method year ended 31.12.2008 (in CZK '000)

	Year ended 31.12.2008	Year ended 31.12.2007
I. Sales of goods	4	
A. Costs of goods sold	4	
II. Production	10,179,171	6,823,343
II.1. Sales of own products and services	9,888,543	6,639,119
II.2. Change in internally produced inventory	-2,601	
II.3. Own work capitalised	293,229	184,224
B. Purchased consumables and services	15,987,828	12,950,972
B.1. Consumed material and energy	3,621,592	43,657
B.2. Services	12,366,236	12,907,315
<b>+ Added value</b>	<b>-5,808,657</b>	<b>-6,127,629</b>
C. Staff costs	2,498,832	372,825
C.1. Payroll costs	1,775,824	257,704
C.2. Remuneration to members of statutory bodies	4	7
C.3. Social security and health insurance costs	610,946	90,241
C.4. Social costs	112,058	24,873
D. Taxes and charges	27,089	60,650
E. Depreciation of intangible and tangible fixed assets	4,182,257	3,871,629
III. Sales of fixed assets and material	317,703	193,230
III.1. Sales of fixed assets	46,611	9,108
III.2. Sales of material	271,092	184,122
F. Net book value of fixed assets and material sold	290,508	193,302
F.1. Net book value of sold fixed assets	21,874	9,182
F.2. Book value of sold material	268,634	184,120
G. Change in reserves and provisions relating to operating activities and complex deferred expenses	33,973	-302,994
IV. Other operating income	15,566,165	14,378,075
H. Other operating expenses	90,686	2,511,831
<b>* Operating profit or loss</b>	<b>2,951,866</b>	<b>1,736,433</b>
VIII. Income from current financial assets	24,477	18,894
X. Interest income	124,208	65,541
N. Interest expenses	1,165,408	1,391,880
XI. Other financial income	46,509	600,771
O. Other financial expenses	465,324	39,101
<b>* Financial profit or loss</b>	<b>-1,435,538</b>	<b>-745,775</b>
Q. Income tax on ordinary activities	393,307	-368,235
Q.2. – deferred	393,307	-368,235
<b>** Profit or loss from ordinary activities</b>	<b>1,123,021</b>	<b>1,358,893</b>
<b>*** Profit or loss for the current period (+/-)</b>	<b>1,123,021</b>	<b>1,358,893</b>
<b>**** Profit or loss before tax</b>	<b>1,516,328</b>	<b>990,658</b>

## Statement of changes in equity

Year ended 31.12.2008 (in CZK '000)

	Share capital	Capital funds	Statutory funds	Accumulated profits brought forward	Profit or loss for the current period	Total equity
<b>Balance at 31 December 2006</b>	<b>41,170,914</b>	<b>494,454</b>	<b>400,646</b>	<b>929,897</b>	<b>3,945,964</b>	<b>46,941,875</b>
Adjustment of opening balances of assumed assets	-37,357					-37,357
Received gift		111,288				111,288
Assets identified during stock counts		16,630				16,630
Distribution of profit or loss			399,338	3,546,626	-3,945,964	
Free of charge transfers of assets and other share capital movements	-3,695					-3,695
Privatisation	-471,601					-471,601
Use of the culture and social needs fund			-6,409			-6,409
Subsidies to the culture and social needs fund			2,713			2,713
Profit or loss for the current period					1,358,893	1,358,893
<b>Balance at 31 December 2007</b>	<b>40,658,261</b>	<b>622,372</b>	<b>796,288</b>	<b>4,476,523</b>	<b>1,358,893</b>	<b>47,912,337</b>
Received gift		8,400				8,400
Assets identified during stock counts		24,884				24,884
Distribution of profit or loss			141,026	1,217,867	-1,358,893	
Free of charge transfers of assets and other share capital movements	254,509					254,509
Privatisation	-222,377					-222,377
Use of the culture and social needs fund			-23,775			-23,775
Subsidies to the culture and social needs fund			31,346			31,346
Change in share capital - grant for the purchase of business part	11,852,101					11,852,101
Profit or loss for the current period					1,123,021	1,123,021
<b>Balance at 31 December 2008</b>	<b>52,542,494</b>	<b>655,656</b>	<b>944,885</b>	<b>5,694,390</b>	<b>1,123,021</b>	<b>60,960,446</b>

## Cash flow statement

Year ended 31.12.2008 (in CZK '000)

	Year ended 31.12.2008	Year ended 31.12.2007
<b>P. Opening balance of cash and cash equivalents</b>	<b>3,216,710</b>	<b>4,190,976</b>
<b>Cash flows from ordinary activities</b>		
Z. Profit or loss from ordinary activities before tax	1,516,328	990,658
A.1. Adjustments for non-cash transactions	-809,590	373,982
A.1.1. Depreciation of fixed assets	4,182,257	3,871,629
A.1.2. Change in provisions and reserves	33,973	-303,255
A.1.3. Profit/(loss) on the sale of fixed assets	-766,358	74
A.1.5. Interest expense and interest income	1,016,723	1,307,445
A.1.6. Adjustments for other non-cash transactions	-5,276,185	-4,501,911
<b>A.* Net operating cash flow before changes in working capital</b>	<b>706,738</b>	<b>1,364,640</b>
A.2. Change in working capital	-1,957,011	1,790,557
A.2.1. Change in operating receivables and other assets	-1,132,160	-1,782,414
A.2.2. Change in operating payables and other liabilities	-617,621	3,600,768
A.2.3. Change in inventories	-207,230	-27,797
<b>A.** Net cash flow from operations before tax and extraordinary items</b>	<b>-1,250,273</b>	<b>3,155,198</b>
A.3. Interest paid	-23,860	-750
A.4. Interest received	148,685	84,435
<b>A.*** Net operating cash flows</b>	<b>-1,125,449</b>	<b>3,238,883</b>
<b>Cash flows from investing activities</b>		
B.1. Fixed assets expenditures	-11,602,944	-3,275,403
B.2. Proceeds from fixed assets sold	788,232	144,397
<b>B.*** Net investment cash flows</b>	<b>-10,814,712</b>	<b>-3,131,006</b>
<b>Cash flow from financial activities</b>		
C.1. Change in payables from financing	127,394	-1,082,143
C.2. Impact of changes in equity	11,852,102	
C.2.1. Cash increase in share capital	11,852,102	
<b>C.*** Net financial cash flows</b>	<b>11,979,496</b>	<b>-1,082,143</b>
<b>F. Net increase or decrease in cash and cash equivalents</b>	<b>39,335</b>	<b>-974,266</b>
<b>R. Closing balance of cash and cash equivalents</b>	<b>3,256,045</b>	<b>3,216,710</b>

## Notes to the Financial statements for the year ended 31 December 2008

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## 1. General information

### 1.1. Background Information

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

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

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

The financial statements have been prepared as of and for the year ended 31 December 2008.

### 1.2. Principal Operations

Pursuant to Act No. 77/2002 Coll., SŽDC principally engages in operating railway infrastructure and securing their operability, modernisation and development. The operability of the railway infrastructure before 30 June 2008 and the operation of the railway infrastructure throughout the year ended 31 December 2008 was provided by České dráhy, akciová společnost ("ČD, a.s.") for SŽDC on a contractual basis. The costs incurred as a result of these activities were billed to SŽDC, as discussed in Note 7.4. Since 1 July 2008, the operability of the railway infrastructure has been maintained by SŽDC.

SŽDC provides carriers with railway infrastructure for use. Proceeds arising from the use of railway infrastructure are predominantly realised with the key user, ČD, a.s. and ČD Cargo, a.s., as discussed in Note 7.4. SŽDC generates additional major revenues from subsidies as discussed in Note 4.18.

SŽDC is additionally involved in administering the assets and liabilities set out in Sections 20 and 38a of Act No. 77/2002 Coll. In addition to the assets forming the railway infrastructure, these principally involve assumed receivables and payables, including the loans of ČD, s.o., and the assets specified in the appendix to the Act that had been administered by the Czech Ministry of Transport until 30 June 2004.

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

On 1 July 2008, SŽDC assumed the role of the operator of the national railway infrastructure and regional railway infrastructure owned by the state including certain activities involved in the operation of the railway infrastructure pursuant to the amendment to Act No. 77/2002 Coll.

### 1.3. Purchase of the Business Part

In its Resolution No. 1352 dated 4 December 2007 and Resolution No. 795 dated 27 June 2008, the Czech Government agreed with the transfer of the role of the operator of national railway infrastructure and regional railway infrastructure owned by the state and certain activities which are involved in the operation of the railway infrastructure, including corresponding material, technological and staff capacities from ČD, a.s. to the Company.

On 26 June 2008, ČD, a.s. and the Company concluded the Contract for the Sale of the Business Part. The purchase price of CZK 11,852,101 thousand was determined based on an expert opinion prepared by a court-appointed expert. The Ministry of Transport provided a grant amounting to the purchase price to finance the transfer of assets relating to the role of the railway infrastructure operator.

Pursuant to the Contract for the Sale of the Business Part, the Company acquired part of ČD, a.s. composed of 18 organisational units and certain divisions involved at the general directorate of ČD, a.s. in the operations of the infrastructure including the staff, assets and technical base.

The value of the purchased business part predominantly included fixed assets (land, buildings, structures, movable assets, etc.) the aggregate value of which was determined at CZK 11.5 billion. In addition to fixed assets, the Company assumed inventory, current financial assets, receivables and deferrals/accruals.

The Company also assumed the liabilities of ČD, a.s. as part of the purchase of the business part. Pursuant to the Contract for the Compensation and Settlement of Liabilities, the Company received funds from ČD, a.s. in settlement for these liabilities.

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

SŽDC is a standalone state organisation, is included in no group and does not hold any equity investments in any other businesses.

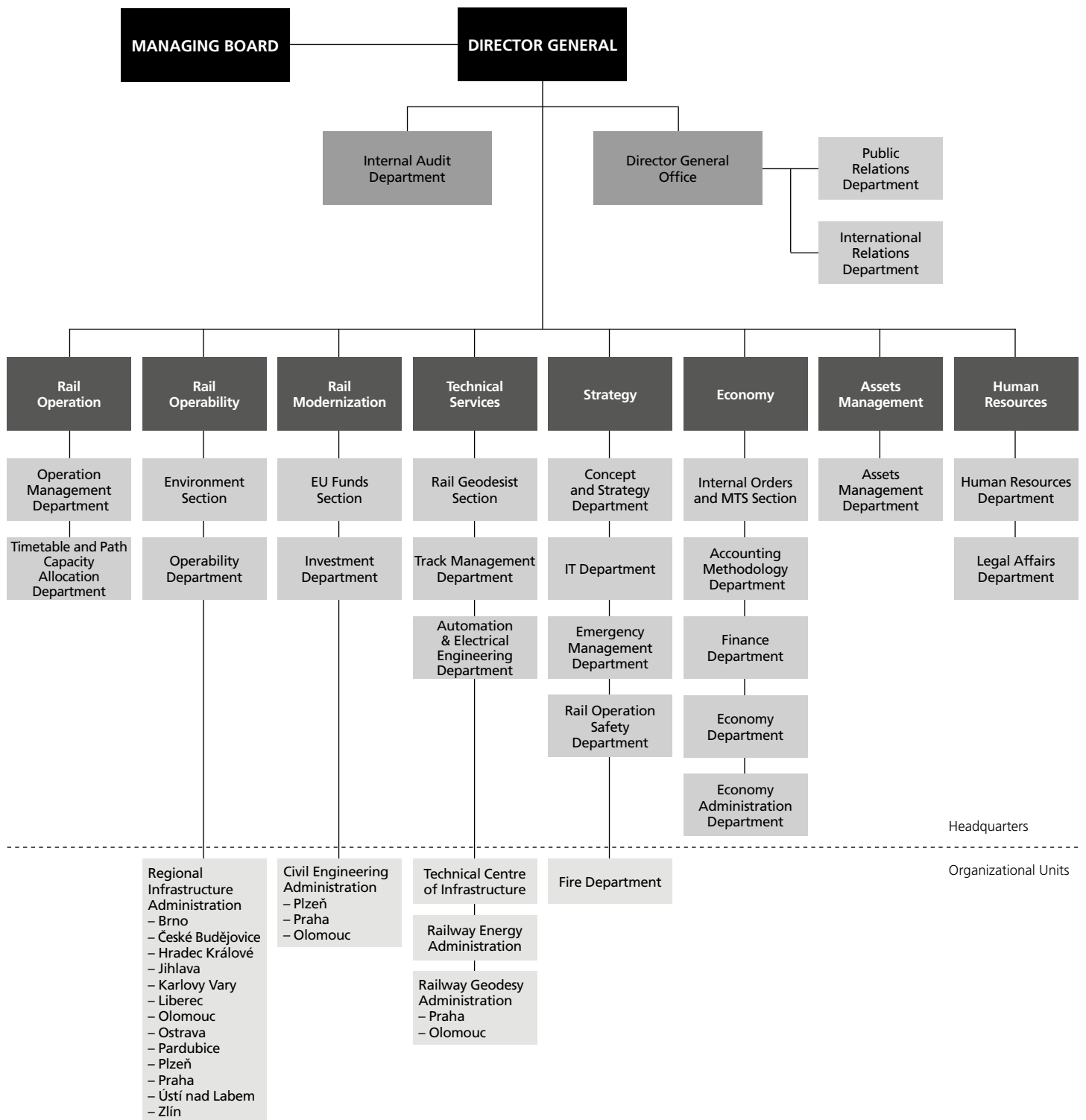
SŽDC's bodies include the Management Board and the Director General. The Director General, Jan Komárek, is SŽDC's statutory body and manages the Company's operations and activities and acts on its behalf. Bohuslav Navrátil was recorded in the Register of Companies as the Statutory Deputy Director General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

*The members of the Management Board as of 31 December 2008 were as follows:*

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

During the year ended 31 December 2008, the organisational structure significantly changed as a result of the purchase of a business part, as described in Note 1.3.

Organisational structure of the Company as of 31 December 2008 is as follows:



## 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 Act 77/2002 Coll.

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

Purchased intangible fixed assets are stated at cost.

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

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

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

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

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

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

The acquisition cost of assets comprising the railway infrastructure acquired subsequent to 1 January 2002 from grants is reduced to reflect the amount of the grant.

Railway infrastructure, which were not depreciated for accounting purposes in 2003 and 2004 in accordance with Section 26 of Act No. 77/2002 Coll., form a predominant proportion of SŽDC's tangible fixed assets. The amount of unrecognised depreciation would amount to approximately CZK 7.6 billion for both years. Since 1 January 2005, SŽDC has begun to depreciate its tangible fixed assets related to the railway infrastructure in accordance with the amended version of Act No. 77/2002 Coll., the only exception being assets acquired from grants.

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

Assets acquired through the purchase of a business part as of 1 July 2008 were valued by a court-appointed expert and included in the asset registry of the Company at the net book values of the selling organisation as of the acquisition date.

The difference between the aggregate carrying value of assets and the purchase price represents the valuation difference on acquired assets which is depreciated to expenses on a straight line basis over 180 months in accordance with Regulation No. 500/2002 Coll.

Most of the movable fixed assets with a cost below CZK 40 thousand and intangible assets with a cost below CZK 60 thousand acquired as part of the acquisition of a business part were transferred to the records of low value tangible assets based on the internal guideline and professional assessment.

### **3.2. Inventory**

Since 1 June 2007, the Company has utilised the recovered usable material from the railway infrastructure intended for use in investment construction. Until 31 May 2007, this material was the property of ČD, a.s. and the Company purchased it as and when needed.

Following the acquisition of the business part from ČD, a.s., the structure of inventory significantly changed. At present, inventory predominantly includes operating inventory of the railway superstructure. In addition, the acquired material from the railway infrastructure for maintenance, fuels, oils, personal protective supplies, auxiliary material, etc. was transferred.

Purchased inventory is carried at cost.

The acquired material is carried at replacement cost.

### **3.3. Receivables**

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

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

At the balance sheet date, the Company records non-tax deductible provisions as follows:

- full provisions against receivables assumed from ČD, s.o.; and
- full provisions against receivables that matured on 30 June 2008 (for other unsettled receivables).

Receivables that were included in the purchase of the business part were assumed at their nominal values net of provisions. Non-tax deductible provisions against these receivables were recognised as of 31 December 2008 in the amount of 100 percent of the value of receivables past their due dates.

### **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 4.11.8.

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

### **3.6. Equity**

The share capital balance held as of 1 January 2003 was equal to the net book value of assets and liabilities assumed as of the date on which SŽDC was established, as discussed in Note 7.1. As of 1 July 2004, the assets specified in the Appendix to Act No. 77/2002 Coll., as amended, transferred from the Ministry of Transport to SŽDC, were charged against the share capital account. In addition, the value of the business part purchased from ČD, a.s. as of 1 July 2008 was charged against the share capital account.

Changes in the share capital are recorded in respect of the transfer of plots of land to the Land Fund of the Czech Republic, bringing records into line with the details held at the Real Estate Cadastre (refer to Note 4.8.), free-of-charge transfers of assets, privatisation (refer to Note 3.18), corrections of accounting errors in the register of land newly established by the plot map at the beginning and end of railway stations as part of the transformation of ČD based on Act No. 77/2002 Coll., as amended, or additional refinements made to the scope and value of assets and liabilities taken over by SŽDC as of 1 January 2003.

SŽDC records the statutory reserve fund when it generates profit.

SŽDC records the cultural and social needs fund in accordance with Regulation No. 310/1995 Coll., as amended. In 2008, the fund was used according to the approved principles.

### **3.7. Reserves**

Reserves are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred or certain to be incurred, but which are uncertain as to the amount or the date on which they will arise. SŽDC records reserves for amounts largely related to the liabilities taken over based on Act No. 77/2002 Coll.

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

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

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

### **3.8. Foreign Currency Translation**

Transactions denominated in foreign currencies are recorded at the fixed Czech National Bank's exchange rate ruling as of the first day of the month, payments are valued using the exchange rate of a bank that made the payment.

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

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

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

### **3.9. Income Taxation**

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

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

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

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

### **3.10. Financial Derivatives**

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

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

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

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

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

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

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

### **3.11. Grants**

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

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

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

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

Pursuant to the resolution of the Czech Ministry of Transport, the Company received the grant for the payment of the purchased business part in the year ended 31 December 2008. This transaction was recognised as an increase in the share capital following the resolution of the Company's Management Board.

### **3.12. Revenue Recognition**

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

SŽDC's revenues predominantly include the proceeds arising from the use of railway infrastructure. These proceeds are used to settle costs involved in securing the operation of railway infrastructure and a portion of costs of the operability of railway infrastructure. Other significant revenue arises from electricity distribution and trading which the Company has been engaged in since 1 January 2008 based on the licence granted by the Energy Office.

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

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

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

In the year ended 31 December 2008, SŽDC recorded no extraordinary income or expenses arising from transactions that are extraordinary with respect to principal activities of SŽDC, or significant corrections to prior reporting periods.

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

There were no changes in accounting policies in the year ended 31 December 2008.

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

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

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

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

As of the date of its establishment, SŽDC assumed long-term payables arising from guaranteed loan contracts for the financing of corridors and other programmes which are guaranteed by the State in terms of Act No. 77/2002 Coll. The debt service for all loan contracts is secured by the Ministry of Finance. All payments of principal and interest amounts made by the Ministry of Finance are recorded as an increase in long-term payables to the State budget in SŽDC's accounting books. SŽDC provides carriers with railway infrastructure for use in the public interest for an officially determined price which is set out in accordance with Pricing Act 526/1990 Coll. The proceeds from payments for the use of the railway infrastructure are not sufficient to offset the costs involved in operating, maintaining and developing railway infrastructure. As a result, SŽDC does not generate available sources of funding which it could use to settle its payables to the State budget. Reflecting these facts, on 30 November 2005 the Government adopted Resolution No. 1553 (the "Government Resolution") whereby it set out the approach to forgive SŽDC's payables until they are fully settled. The Government Resolution states that "subject to compliance with the outlined approach to dealing with SŽDC's payables, this organisation is considered to be clear of debts".

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

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

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

### 3.18. Privatisation

Under Act 77/2002 Coll., SŽDC took over assets from the Ministry of Transport as of 1 July 2004 which are earmarked for the settlement of liabilities assumed from ČD, s.o.

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

In 2008, the Ministry of Finance carried out privatisation in the form of third party sales. The proceeds collected from the sale are subsequently passed on to SŽDC as they are earmarked for the settlement of SŽDC's payables in accordance with the Transformation Act and are recognised in other operating income upon receipt.

### 3.19. Sale of Assets

The sale of assets comprising the railway infrastructure is subject to the approval by the Czech Government in accordance with Section 20 (4) of Act No. 77/2002 Coll., as amended. The sale of assets listed in the Appendix to Act 77/2002 Coll., as amended, is subject to the approval by the Management Board and subsequently by the Czech Ministry of Transportation.

A portion of SŽDC's assets that the Company did not have the right to use in accordance with Act 77/2002 Coll. were sold to České dráhy a.s. Concurrently, SŽDC purchased the assets that, as part of the transformation process, were listed in the Memorandum of Association of ČD, a.s. and were supposed to be transferred to SŽDC in accordance with the Transformation Act.

## 4. Additional information on the balance sheet and profit and loss account

### 4.1. Intangible Fixed Assets (in CZK '000)

Acquisition cost	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Software	34,383	0	0	34,383	80,561	826	114,118
Valuable rights	279	0	0	279	0	279	0
Other	0	0	0	0	2,548	0	2,548
Intangible assets under construction	0	11,302	0	11,302	0	11,302	0
<b>Total</b>	<b>34,662</b>	<b>11,302</b>	<b>0</b>	<b>45,964</b>	<b>83,109</b>	<b>12,407</b>	<b>116,666</b>

Accumulated amortisation	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Software	33,067	1,013	0	34,080	13,040	826	46,294
Valuable rights	173	92	0	265	14	279	0
Other	0	0	0	0	187	0	187
<b>Total</b>	<b>33,240</b>	<b>1,105</b>	<b>0</b>	<b>34,345</b>	<b>13,241</b>	<b>1,105</b>	<b>46,481</b>

Net book value	Balance at 31 Dec 2006	Balance at 31 Dec 2007	Balance at 31 Dec 2008
Software	1,316	303	67,824
Valuable rights	106	14	0
Other	0	0	2,361
Intangible assets under construction	0	11,302	0
<b>Total</b>	<b>1,422</b>	<b>11,619</b>	<b>70,185</b>

## 4.2. Tangible Fixed Assets

### 4.2.1. Analysis of Movements of Assets (in CZK '000)

Acquisition cost	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Land	5,802,953	71,040	111,072	5,762,921	609,005	41,456	6,330,470
Buildings	134,755,246	408,923	1,276,362	133,887,807	2,501,356	1,737,406	134,651,757
Individual movable assets	19,088,142	134,205	212,064	19,010,283	1,196,002	388,692	19,817,593
– Machinery and equipment	18,879,433	131,503	207,514	18,803,422	835,924	383,075	19,256,271
– Vehicles	205,237	2,702	4,509	203,430	353,909	5,508	551,831
– Other	3,472	0	41	3 431	6,169	109	9,491
Tangible assets under construction	4,694,475	18,953,591	20,087,819	3,560,247	23,972,824	22,683,844	4,849,227
Prepayments	27,781	573,087	404,973	195,895	7,700,161	7,887,210	8,846
Valuation difference	0	0	0	0	8,192,259	0	8,192,259
<b>Total</b>	<b>164,368,597</b>	<b>20,140,846</b>	<b>22,092,290</b>	<b>162,417,153</b>	<b>44,171,607</b>	<b>32,738,608</b>	<b>173,850,152</b>

Accumulated amortisation	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Buildings	66,461,893	2,883,613	794,388	68,551,118	3,006,395	1,284,276	70,273,237
Individual movable assets	9,098,984	1,033,307	171,789	9,960,502	1,056,557	314,922	10,702,137
– Machinery and equipment	9,024,094	1,019,514	170,753	9,872,855	1,013,818	309,756	10,576,917
– Vehicles	72,404	13,528	1,015	84,917	40,786	5,057	120,646
– Other	2,486	265	21	2,730	1,953	109	4,574
Valuation difference	0	0	0	0	227,563	0	227,563
<b>Total</b>	<b>75,560,877</b>	<b>3,916,920</b>	<b>966,177</b>	<b>78,511,620</b>	<b>4,290,515</b>	<b>1,599,198</b>	<b>81,202,937</b>

Provisions	Balance at 31 Dec 2006	Movement	Balance at 31 Dec 2007	Movement	Balance at 31 Dec 2008
Land	42,397	126	42,523	-5,912	36,611
Buildings	180,635	-15,357	165,278	-9,667	155,611
Machinery and equipment and furniture and fixtures	29,672	-29,618	54	2,449	2,503
Tangible assets under construction	187,860	-1,121	186,739	-5,945	180,794
<b>Total</b>	<b>440,564</b>	<b>-45 970</b>	<b>394,594</b>	<b>-19,075</b>	<b>375,519</b>

Net book value	Balance at 31 Dec 2006	Balance at 31 Dec 2007	Balance at 31 Dec 2008
Land	5,760,556	5,720,398	6,293,859
Buildings	68,112,718	65,171,411	64,222,909
Individual movable assets	9,959,486	9,049,727	9,112,953
– Machinery and equipment	9,825,667	8,930,513	8,676,851
– Vehicles	132,833	118,513	431,185
– Other	986	701	4,917
Tangible assets under construction	4,506,615	3,373,508	4,668,433
Prepayments	27,781	195,895	8,846
Valuation difference	0	0	7,964,696
<b>Total</b>	<b>88,367,156</b>	<b>83,510,939</b>	<b>92,271,696</b>

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

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

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

Additions to tangible fixed assets predominantly include the capitalisation of corridor construction and the value of assets acquired in the purchase of the business part.

Additions to tangible and intangible fixed assets arising from the purchase of the business part as of 1 July 2008 recorded at the net book values of the selling company amount to CZK 3,251,648 thousand. An amount of CZK 41,857 thousand of the aggregate amount remains on the tangible fixed assets under construction account. These are immovable assets, the ownership issues of which were not resolved in the Real Estate Register as of 31 December 2008. The difference between the aggregate carrying value of assets and the purchase price represents the valuation difference on acquired assets which amounted to CZK 8,192,259 thousand as of 1 July 2008.

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

#### 4.2.2. Investment Grants

Set out below is an analysis of the total balance of investment grants for the years ended 31 December 2008 and 2007 (in CZK '000):

	1 Jan – 31 Dec 2008	1 Jan – 31 Dec 2007
State Fund of Transport Infrastructure for modernisation	21,100,350	13,417,009
EU funds	1,752,395	2,301,616
Contributions from municipalities, regions and other entities	51,814	63,926
<b>Total investment grants</b>	<b>22,904,559</b>	<b>15,782,551</b>

Grants from the State Fund of Transport Infrastructure include funds from the "Doprava" operational fund which amounted to CZK 7,926,419 thousand and CZK 2,576,463 thousand in the years ended 31 December 2008 and 2007, respectively.

Grants received from the State Fund of Transport Infrastructure in the form of pre-financing amounted to CZK 1,192,143 thousand and CZK 2,646,287 thousand in the years ended 31 December 2008 and 2007, respectively.

In December 2008, prepayments were made in the amount of CZK 348,703 thousand from TEN-T (Trans-European Transport Network) funds.

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

The aggregate amount of low value tangible fixed assets not reported in the balance sheet is CZK 651,439 thousand and CZK 47,269 thousand as of 31 December 2008 and 31 December 2007, respectively. These balances are composed of assets with a cost not exceeding CZK 40 thousand which are retained in the operating records at historical cost. These balances were recognised in expenses when acquired in accordance with the effective legislation. The increase in the year ended 31 December 2008 relates to the purchase of a business part. In addition, the Company purchased tangible fixed assets with the net book value lower than CZK 40 thousand which, in substance, belong to low value tangible assets in the year ended 31 December 2008. These assets transferred to tangible fixed assets amounted to CZK 18,988 thousand.

The amount of fixed assets financed from grants and other sources recorded off balance sheet is CZK 97,630,583 thousand and CZK 74,962,797 thousand as of 31 December 2008 and 31 December 2007, respectively.

#### 4.2.4. Pledged Assets

SŽDC held no pledged assets as of 31 December 2008.

#### 4.2.5. Assets Held Under Finance Leases

SŽDC holds no assets under finance leases.

### 4.3. Inventory (in CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Material in stock – recovered for reinvestments in assets (administered by CD before 30 June 2008)	113,055	27,694
Material in stock	117,978	590
Material in transit	3,363	0
Work in progress	1,000	0
Goods in stock	9	0
Prepayments for inventory	112	3
<b>Total inventory</b>	<b>235,517</b>	<b>28,287</b>

Changes in the balances in the year ended 31 December 2008 relate to the acquisition of the business part (refer to Note 3.2).

#### 4.4. Short-Term Receivables

##### 4.4.1. Trade Receivables

Set out below is the aging analysis of trade receivables (in CZK '000):

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

31 Dec 2007	Before due date	Past due date (in days)					Total past due	Total
		0-90	91-180	181-365	1-2 years	2 years and greater		
Gross	1,022,544	29,534	665	7,448	12,127	199,960	249,734	1,272,278
Provision	0	-453	-359	-7,448	-12,127	-195,360	-215,747	-215,747
Net	1,022,544	29,081	306	0	0	4,600	33,987	1,056,531

The increase in receivables in the year ended 31 December 2008 was predominantly due to the increase in receivables for the use of the railway infrastructure, for the sale of electricity to ČD Cargo, a.s. and ČD, a.s. (refer to Note 7.4) and assumed receivables in relation to the purchase of the business part (aggregate assumed receivables of CZK 181,176 thousand, of which the balance as of 31 December 2008 is CZK 18,186 thousand), both receivables before their due dates and past their due dates.

Upon transformation in 2003, SŽDC acquired receivables from the former Yugoslav Railways. In the same year, these receivables were assigned to a third party. However, the assignee breached its obligations and made no payments, therefore SŽDC withdrew from the contract in 2006 and again became the creditor in respect of these receivables. The receivable from the assignee in the amount of CZK 112,992 thousand represents the predominant portion of past due date receivables.

As of 1 July 2004, SŽDC took over aggregate receivables of CZK 98,170 thousand from the Czech Ministry of Transport. These balances represent amounts due from the lease of residential and non-residential premises. The balance of these receivables was CZK 5,946 thousand and CZK 12,481 thousand as of 31 December 2008 and 31 December 2007, respectively.

##### 4.4.2. Tax Receivables

As of 31 December 2008 and 2007, tax receivables consist of a VAT receivable of CZK 1,447,860 thousand and CZK 1,400,872 thousand, respectively.

##### 4.4.3. Other Receivables

The structure of other receivables (in CZK '000):

Type of receivable	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Receivables assumed from ČD, s.o.	18,510	36,810
Of which:		
Rental proceeds from housing	17	20,041
Damage on the assets of ČD, s.o.	12,223	10,523
Other	6,270	6,246
Receivables arising from the administration of assets assumed from the Ministry of Transport	0	6,095
Receivables arising from damages	42,426	7,685
Receivables from the sale of the business part	22,674	0
Reserve allocation to the cultural and social needs fund	35,862	5,249
Receivables from damages for Břežno-Chomutov rail relocation (refer to Note 7.3)	29,247	0
Other	908	5,367
<b>Total other receivables</b>	<b>149,627</b>	<b>61,206</b>
Provisions	-16,997	-40,492
<b>Total other receivables, net</b>	<b>132,630</b>	<b>20,714</b>

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

#### 4.5. Estimated Receivables (in CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Anticipated grant from EU funds (refer to Note 3.11)	1,437,158	1,981,316
Estimated receivable arising from the billing of the use of railway infrastructure in passenger transportation	2,171	3,326
Estimated receivable arising from the billing of the use of railway infrastructure in freight transportation	1,785	65,756
Claimed compensation for damage arising from the mandate contract and ČD s.o.	21,104	0
Estimated receivable for the rail relocation on the Březno-Chomutov track (refer to Note 7.3.)	26,276	171,644
Estimated receivable from the billing of expenses for the operation of the railway infrastructure from ČD, a.s. (credit note)	0	39,622
Estimated receivable from the rebilling of the expenses for the administration of residential premises the sale of which did not become legally effective	3,485	2,108
Other items	16,332	699
<b>Total estimated receivables</b>	<b>1,508,311</b>	<b>2,264,471</b>

The increase in other items is due to the recognition of estimated receivables for energy.

#### 4.6. Derivative Financial Instruments (in CZK '000)

	31 Dec 2008 Fair value	31 Dec 2007 Fair value
Derivatives held for trading		
Interest rate swaps	-77,243	0
<b>Total</b>	<b>-77,243</b>	<b>0</b>

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

This payable arising from derivative transactions is reported in balance sheet line B.III.11 – Other payables.

#### 4.7. Financial Assets (in CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Cash on hand and cash in transit	1,428	331
Stamps and vouchers	3,219	145
Cash at bank	3,251,398	3,216,234
<b>Total financial assets</b>	<b>3,256,045</b>	<b>3,216,710</b>

#### 4.8. Deferred Expenses

Deferred expenses largely include deferred financial expenses, specifically operating expenses of SŽDC related to the principal activities in 2009 (insurance, prepayments, highway stamps).

#### 4.9. Equity

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

In accordance with Czech Accounting Standard No. 22., the share capital amount was reduced by the net book value of privatised assets in 2008 and 2007.

Due to the specification of ČD's transformation, land worth CZK 30,541 thousand and CZK 1,448 thousand in the years ended 31 December 2008 and 2007, respectively, was included and recognised in SŽDC's assets. Concurrently, land worth CZK 3,352 thousand and CZK 9,562 thousand in the years ended 31 December 2008 and 2007, respectively, was removed from SŽDC's accounting records. These include plots of land divided by transformation plot maps.

The purchase of the business part from ČD, a.s. as of 1 July 2008 resulted in the increase in the equity of CZK 11,852,101 thousand (refer to Note 3.11).

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

#### 4.10. Reserves (in CZK '000)

	Balance at 31 Dec 2007	Charge	Use	Balance at 31 Dec 2008
Reserve for legal disputes	38,990	19,603	3,906	54,687
Reserve for compensation for job-related accidents and diseases	131,122	0	15,779	115,343
Reserve for extra pension payments	83,087	0	11,677	71,410
Reserve for costs of damages	0	59,242	0	59,242
<b>Total reserves</b>	<b>253,199</b>	<b>78,845</b>	<b>31,362</b>	<b>300,682</b>

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

A reserve for legal disputes has been recognised on the basis of the status of new or pending legal disputes in which SŽDC was named as the defendant and the underlying current court or out-of-court proceedings.

#### 4.11. Long-Term Payables

##### 4.11.1. Issued Bonds

Pursuant to Czech Government Resolution No. 908 dated 10 September 2003 relating to the receivables and payables of České dráhy, státní organizace as of 31 December 2002 and their collection/settlement, SŽDC issued bonds (ISIN CZ0003501397) in the aggregate amount of CZK 7 billion in 2004. The nominal value of each bond is CZK 10 thousand. The bonds were issued on 3 March 2004 with maturity in 2011 and an annual interest rate of 4.6 percent. These bonds are traded on the auxiliary stock market. The proceeds of the issue will be used to settle a defined portfolio of payables. In March 2008, the fourth payment of interest in the aggregate amount of CZK 322 million was made to the holders of bonds.

##### 4.11.2. Long-Term Trade Payables (in CZK '000)

Creditor	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Retentions	808,823	630,684
Bid-bonds, security deposits, sureties	6,000	6,000
<b>Total</b>	<b>814,823</b>	<b>636,684</b>

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

##### 4.11.3. Other Long-Term Payables (in CZK '000)

Creditor	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Czech Ministry of Finance – repayment of loan principal and interest balances under Act 77/2002 after the remission	453,229	713,669
Czech Ministry of Finance – payment under state guarantee for loan interest, after the remission	1,454,451	2,886,775
Czech Ministry of Finance – payment under state guarantee for loan principal, after the remission	4,731,098	6,305,984
<b>Total</b>	<b>6,638,778</b>	<b>9,906,428</b>

Payables to the State (the Czech Ministry of Finance) arise from the repayment of loan principal and interest balances which the State has made on behalf of SŽDC under the state guarantee (according to individual contracts and/or Act No. 77/2002). The balances of these payables do not accrue any interest.

In 2005, the Czech Government adopted Resolution No. 1553 on the remission of these payables based on which the long-term payables were decreased by CZK 4,567 MM in 2007. In 2008, CZK 6,369 MM was remitted.

## 4.12. Short-Term Payables

### 4.12.1. Trade Payables

Set out below is the aging analysis of trade payables (in CZK '000):

Year	Before due date	Past due date (days)					Total past due	Total
		0-90	91-180	181-365	1-2 years	2 years and greater		
2008	4,392,561	90,755	2,624	288	352	0	94,019	4,486,580
2007	2,650,935	125,485	2,566	19	84	241	128,395	2,779,330

The balance of payables as of 31 December 2008 predominantly includes the payables for investment supplies to construction developers and payables arising from the costs of the provision of the railway infrastructure due in 2009.

The increase in payables before their due dates is predominantly due to the increased investment construction in the last months of 2008 and payables for the purchase of electricity and maintenance and servicing of data and monitoring systems and networks repayable in 2009.

### 4.12.2. Social Security Payables

As of 31 December 2008, the Company carried only social security payables before their due dates.

### 4.12.3. Tax Payables and Subsidies (in CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Undrawn investment subsidies from the State Fund of Transport Infrastructure	13,288	223,799
Recoverable investment funding to the State Fund of Transport Infrastructure	1,280,575	2,069,539
SFTI TEN T recoverable grant	150,122	196,706
SFTI OPI recoverable grant	11,351	220,430
TEN T investment grant	375,607	50,999
Investment contributions of municipalities, regions and other entities	48,350	16,018
Income tax withheld on behalf of employees	33,741	3,241
Other taxes	150	34
Other grants to sales	73	950
<b>Total tax payables and subsidies</b>	<b>1,913,257</b>	<b>2,781,716</b>

The bulk of the balance of the investment grant from the State Fund of Transport Infrastructure ('SFTI') includes the payable of the pre-financing of constructions in terms of a recoverable subsidy (refer to Note 3.11.) for constructions financed from EU funds, in the amount of CZK 1,442,048 thousand and CZK 2,486,675 thousand as of 31 December 2008 and 2007, 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 65,399 thousand and CZK 148,761 thousand as of 31 December 2008 and 2007, respectively. The decrease was predominantly due to the settlement of the prepayment from Severočeské doly a.s. for the funding of the rail relocation on the Březno – Chomutov track (for details refer to Note 7.3.).

### 4.12.5. Estimated Payables (in CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Unbilled non-investment supplies	629,733	33,571
Unbilled investment supplies	444	3,449
Estimated payable for interest expenses in respect of corridors	58,318	59,918
Other	8,882	0
<b>Total estimated payables</b>	<b>697,377</b>	<b>96,938</b>

The increase in the balance of unbilled non-investment supplies as of 31 December 2008 is predominantly due to the recognised estimated payable for expenses relating to the operation of railway infrastructure for the latter half of 2008. The aggregate amount also relates to the increase in the activities relating to the purchase of the business part of ČD, a.s.

"Other" predominantly includes the estimated payable for expenses arising from the non-compliance of the obligation to employ disabled workers (approximately CZK 7 MM).

#### 4.13. Bank Loans

##### 4.13.1. Long-Term Bank Loans (in CZK '000)

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

Bank	Currency	Balance at 31 Dec 2007	Drawing in 1–12/2008	Repayments in 1–12/2008	Foreign exchange rate differences	Balance at 31 Dec 2008
<b>The 1<sup>st</sup> Corridor</b>						
KfW Frankfurt	EUR	272,212	0	32,323	-1,070	240,959
EIB Luxemburg	EUR	1,541,525	0	209,244	-4,413	1,336,694
Japan. EXIM Bank	JPY	908,279	0	132,178	-253,820	1,029,921
EIB Luxemburg	EUR	1,276,026	0	126,979	-5,956	1,155,003
KfW Frankfurt	EUR	771,720	0	765,898	5,822	0
ČS, a.s.	CZK	895,200	0	223,600	0	671,600
KB, a.s.	CZK	1,217,000	0	174,000	0	1,043,000
KfW Frankfurt	EUR	897,981	0	74,198	-2,070	825,853
KfW Frankfurt	EUR	63,128	0	59,968	3,160	0
<b>The 2<sup>nd</sup> Corridor</b>						
EIB Luxemburg	EUR	3,194,400	0	339,020	-17,154	2,872,534
EIB Luxemburg	EUR	3,954,971	0	289,040	-27,326	3,693,257
KfW Frankfurt	EUR	2,586,012	0	258,591	-13,324	2,340,745
<b>Subtotal</b>		<b>17,578,454</b>	<b>0</b>	<b>2,685,039</b>	<b>-316,151</b>	<b>15,209,566</b>
<b>Rationalisation</b>						
ČS, a.s.	CZK	440,835	349,109	0	0	789,944
<b>Subtotal</b>		<b>440,835</b>	<b>349,109</b>	<b>0</b>	<b>0</b>	<b>789,944</b>
<b>Total</b>		<b>18,019,289</b>	<b>349,109</b>	<b>2,685,039</b>	<b>-316,151</b>	<b>15,999,510</b>

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

##### 4.13.2. Summary of Loan Maturities (in CZK '000)

	Due in 2008	Due in 2009	Due in the following years
Long-term loans	2,685,039	2,009,173	13,990,337
<b>Total</b>	<b>2,685,039</b>	<b>2,009,173</b>	<b>13,990,337</b>

The repayments of long-term loans were made by the State (the Czech Ministry of Finance). When the repayment is made by the State, the relevant balance will be reallocated to "Other long-term payables". The repayments of principals amounted to CZK 2,685,039 thousand in the year ended 31 December 2008, of which CZK 726,930 thousand were paid from own funds.

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.

#### 4.14. Deferred Taxation

SŽDC has determined deferred taxation as follows (in CZK '000):

	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Tangible and intangible fixed assets	-3,388,056	-3,062,589
Provisions against assets under construction	75,104	82,865
Trade receivables	13,122	14,302
Reserves	60,136	53,171
Tax losses carried forward	1,247,270	1,313,134
<b>Total deferred tax (+asset/-liability)</b>	<b>-1,992,424</b>	<b>-1,599,117</b>

The deferred tax was calculated using the anticipated tax rate in the period when the temporary difference will be realised.

#### 4.15. Accrued Expenses and Deferred Income (in CZK '000)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007
Deferred income - payments from Severočeské doly for damages	3,436	0
Accrued expenses for interest on the issue of SŽDC's bonds	267,304	267,304
Agreement on the settlement of rights and obligations with ČD-T, a.s.	53,417	83,506
Rental collected upfront	12,827	911
Other	1,225	1,724
<b>Total accrued expenses and deferred income</b>	<b>338,209</b>	<b>353,445</b>

#### 4.16. Income from the Sale of the Company's Products and Services (in CZK '000)

Item	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Income from the use of railway infrastructure by ČD, a.s. – freight transport	71,853	4,093,395
Income from the use of railway infrastructure by ČD, a.s. – passenger transport	1,655,843	1,595,008
Income from the use of railway infrastructure by ČD Cargo, a.s. – freight transport	4,142,140	333,187
Income from the use of railway infrastructure by external carriers – freight transport	343,283	282,805
Income from the use of railway infrastructure by external carriers – passenger transport	4,650	4,806
Income from the operation of railway infrastructure	75,665	76,998
Rental income	151,108	188,858
Income from other external services	441,926	64,061
Income from the sales of electricity	3,000,708	0
Income from foreign carriers for provided services (extraordinary shipments, etc.)	1,367	0
<b>Total income from the sale of products and services</b>	<b>9,888,543</b>	<b>6,639,119</b>

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

Income from other external services increased due to the use of the licence for electricity distribution (refer to Note 1.2).

The increase in the income from other external services relates to the purchase of the business part of ČD, a.s. as of 1 July 2008 and predominantly includes sales of services of the Fire Department of SŽDC (CZK 75 MM) and sales from the use of communication technologies of the Technical Centre of SŽDC (CZK 103 MM) which were billed to ČD, a.s. and ČD Cargo, a.s.

#### 4.17. Services (in CZK '000)

Item	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Costs of managing the operation of railway infrastructure by ČD, a.s.	5,534,923	4,720,292
Costs of maintaining the operability of railway infrastructure by ČD, a.s.	3,151,614	6,662,161
Costs of repairing leased rails	0	3,396
Costs of complex repairs of rails	1,378,453	1,214,548
Costs of repairing apartments	13,275	69,099
Costs of audit, legal and economic services	23,712	13,874
Of which: – costs of the statutory audit of the financial statements	2,300	2,700
– costs of other review services	4,100	4,830
– costs of other non-audit services to the statutory auditor	2,335	2,427
Costs of cooperation in allocating the capacity of railway infrastructure	2,841	60,432
Other	2,261,418	163,513
Of which: repairs and maintenance	1,488,933	0
lease, software under CZK 60 thousand, etc.	772,485	163,513
<b>Total</b>	<b>12,366,236</b>	<b>12,907,315</b>

The increase in costs of managing the operation of railway infrastructure is due to the increased worked hours and the change in the rate since 1 July 2008.

The increase in "Other" and the decrease in the "Costs of maintaining the operability of railway infrastructure" is due to the change in the recognition of repairs and maintenance since 1 July 2008 and relates to the purchase in the business part and transfer of the role of the railway infrastructure operator to the Company.

#### 4.18. Staff Costs (in CZK '000)

2008	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs in 2008	Total staff costs in 2007
Additional social programme	12,351	0	0	12,351	0
Current costs	1,739,371	610,946	112,062	2,462,379	347,055
Other	24,102	0	0	24,102	25,770
<b>Total</b>	<b>1,775,824</b>	<b>610,946</b>	<b>112,062</b>	<b>2,498,832</b>	<b>372,825</b>

Current staff costs represent costs of SŽDC's employees for the year ended 31 December 2008. The "social security and health insurance" column shows payments made by the employer.

Other staff costs predominantly include social costs and pension contributions to former employees of ČD, s.o.

The costs of the additional social programme in the year ended 31 December 2008 relates to the transfer of employees from ČD, a.s. as part of the purchase of the business part and their subsequent transfer to the Company as part of the additional social programme.

The increase in payroll and relating costs results from the increase in the number of employees in the Company in relation to their transfer to ČD, a.s. following the purchase of the business part.

#### 4.19. Change in Reserves and Provisions Relating to Operating Activities (in CZK '000)

Item	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Change in reserves	47,483	-186,837
Change in provisions against receivables	5,565	-70,187
Change in provisions against tangible fixed assets	-19,075	-45,970
<b>Total change in reserves and provisions relating to operating activities</b>	<b>33,973</b>	<b>-302 994</b>

The change in reserves in the year ended 31 December 2008 is predominantly impacted by the recognition of the reserve for costs from damages.

The principal reason for the change in the balance of provisions against receivables in 2007 is the release of the provision against a receivable from the State in the amount of CZK 422 MM.

#### 4.20. Other Operating Income (in CZK '000)

Item	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Grants from the State Fund of Transport Infrastructure ('SFTI') for repairs and maintenance of railway infrastructure	7,664,886	5,387,280
Non-investment grants from the state budget	200,000	370,000
Non-investment grants from SFTI – special purpose	8,806	1,217,509
Non-investment grants - OPD program	5,547	0
Remission of debts	6,369,062	4,567,288
Proceeds of recovered material	392,642	192,647
Proceeds from privatisation	741,620	134,660
Received contractual penalties and default interest	7,995	27,789
Sale of rights for the operation of the transmission network	30,089	32,562
Compensation of the mining damage from Severočeské doly	6,849	2,403,462
Sundry operating income	138,669	44,878
<b>Total other operating income</b>	<b>15,566,165</b>	<b>14,378,075</b>

#### 4.21. Other Operating Expenses (in CZK '000)

Item	Year ended 31 Dec 2008	Year ended 31 Dec 2007
Non-investment and investment default interest	56	1,187
Fines and penalties	1,522	2,476
Write-offs of receivables	29,146	53,186
Write-off of thwarted investments	1,571	895
Costs of court proceedings	1,971	1,431
Rents paid	21,246	23,824
Costs arising from the non-employing of disabled people	7,215	0
Costs arising from the removal of the mining damage (refer to Note 7.3.)	1,948	2,417,365
Sundry operating expenses	26,011	11,467
<b>Total other operating expenses</b>	<b>90,686</b>	<b>2,511,831</b>

#### 4.22. Interest Income

The interest income in the years ended 31 December 2008 and 2007 amounted to CZK 124,208 thousand and CZK 65,541 thousand, respectively. The significant increase is due to the depositing of temporarily available funds on term accounts in banks.

#### 4.23. Other Financial Income

Other financial income principally includes foreign exchange rate gains arising from the retranslation of foreign currency loans which decreased significantly in 2008 predominantly due to the weakening of the Czech crown.

#### 4.24. Other Financial Expenses

Other financial expenses predominantly include foreign exchange rate losses from the translation of foreign currency loans and the impact of the change in the fair value from revaluation of derivatives (refer to Note 4.1.).

### 5. Employees, management and statutory bodies

#### 5.1. Staff cost and number of employees

The following tables summarise the average recalculated number of SŽDC's employees and managers and related current staff costs for the years ended 31 December 2008 and 2007 (in CZK '000):

2008	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	5,565	1,737,230	600,180	112,058	2,449,468
Managers	34	38,594	10,766	4	49,364
<b>Total</b>	<b>5,559</b>	<b>1,775,824</b>	<b>610,946</b>	<b>112,062</b>	<b>2,498,832</b>

2007	Headcount	Wages and salaries	Social security and health insurance	Other expenses	Total staff costs
Staff	619	240,234	84,438	25,770	350,442
Managers	19	16,580	5,803	0	22,383
<b>Total</b>	<b>638</b>	<b>256,814</b>	<b>90,241</b>	<b>25,770</b>	<b>372,825</b>

Note: The registered number of employees of the Company as of 31 December 2008 amounted to CZK 10,545.

Other expenses include the costs of the loss on earnings, contributions for Company catering, special contributions to pensions, contributions to additional pension insurance and contributions for capital insurance.

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

In 2008 and 2007, members of the Company's management did not receive any borrowings, loans or any other bonuses in addition to their basic salaries.

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

#### 6.1. Off Balance Sheet Commitments

##### *Environmental Liabilities*

As of 1 July 2007, the Company received the key deliverables from the completed across-the-board environmental audit of the assets owned by the state with the right of management for the Company. Given the ongoing additional research (risk analyses, the feasibility study for another solution), it is impossible to currently calculate the future liabilities arising from prior activities (legacy environmental burdens including soil and water pollution). Concurrently, the Company has to deal with the legacy noise burden which results in the increase of complaints for noise or vibrations from railway traffic. In addition, it is not possible to determine the liabilities related to the prevention of potential future damage. The actual costs of dealing with and/or preventing environmental burdens (including potential burdens) are charged as operating expenses as part of securing the operability of railway infrastructure, unless they are added to the cost of new investment construction which reflects environmental protection already in the preparatory project documentation.

Since 2006, the costs of environmental protection, i.e. the removal of noise and vibration, have been reported to the Czech Statistical Office. These costs were calculated at approximately CZK 394 MM for the year ended 31 December 2007. In the year ended 31 December 2008, these costs amounted to CZK 539 MM (only anti-noise measures in investments in corridors).

##### *Legal Disputes*

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

In 2005, the reserve was reversed due to the development in the legal dispute. At the end of 2006, the court ruled that the Company is not the entity responsible for the damage. For this reason, the charge against the Company was dismissed. However, the plaintiff appealed against the ruling within the statutory period and the ruling of the court of the first instance was revoked in the appellate proceedings and the case was returned for a new hearing and ruling. The appeals court did not issue such ruling to confirm the acting of the plaintiff but due to the fact that the proceedings were managed incorrectly from the beginning and there were numerous faults in the proceedings. Nevertheless, the result is that the process has started anew and the Company cannot anticipate the further development. The plaintiff in this dispute seeks damages of CZK 8 billion from all defendants.

### Property Relations

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

### 6.2. Projected Commitments Associated with Corridor Construction

With a view to fully linking the Czech railway infrastructure to the European infrastructure, SŽDC oversees the construction of railway transit corridors. The construction of the 1<sup>st</sup> Railway Corridor was completed in 2004 and the construction of the 2<sup>nd</sup> 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 (in CZK '000):

Balance at 31 Dec 2008	Construction work undertaken to date	Remaining estimated costs	Total estimated costs
1 <sup>st</sup> Corridor	40,759,568	0	40,759,568
2 <sup>nd</sup> Corridor	39,016,291	0	39,016,291
3 <sup>rd</sup> Corridor	14,896,362	60,734,499	75,630,861
4 <sup>th</sup> Corridor	9,632,279	32,293,105	41,925,384
<b>Total</b>	<b>104,304,500</b>	<b>93,027,604</b>	<b>197,332,104</b>

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

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

## 7. Other Information

### 7.1. Formation and Incorporation of the Company

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

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

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

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

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

SŽDC was formed pursuant to, and its activities and operations are governed by, Act 77/2002 Coll., Act 266/94 Coll. and other general legal regulations governing the position of state organisations. The above legislation, inter alia, sets out the scope of SŽDC's assets or its role in operating and securing the operability of railway infrastructure in the public interest.

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

Under the amendment to Act No. 77/2002 Coll., SŽDC assumed the activities of the railway infrastructure operator on 1 July 2008. For this reason, the validity of the three-year contract was discontinued and the contract was replaced by individual contracts defining mutual relations between SŽDC and ČD, a.s.

SŽDC provides carriers with 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 railway infrastructure. As such, the financing of SŽDC's activities is dependent upon subsidies from the State and/or other entities.

### 7.3. Mining Damage and Březno – Chomutov Rail Relocation

Following the expansion of the coal mining by Severočeské doly, a.s., the Company was required to undertake the rail relocation between Březno u Chomutova and Chomutov which is recorded as part of the Company's assets. The costs involved in the relocation of the part of the railway which is an operationally feasible substitute of the removed part, constitute a mining damage under the Mining Act and are funded by Severočeské doly, a.s. pursuant to the contract.

The compensation of the damage was provided on an ongoing basis and it was recorded in the Company's books as deferred income (refer to Note 4.13.).

The rail relocation was completed in 2007 and the expenses are being currently reconciled. The expenses relating to the rail relocation amounting to CZK 2,417 million were recognised in operating expenses in 2007 (refer to Note 4.19.) as damage and the anticipated compensation of up to CZK 2,403 million was recognised in operating income (refer to Note 4.18.).

In the year ended 31 December 2008, other confirmed expenses were rebilled (refer to the Notes disclosures provided above).

### 7.4. 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 (in CZK '000):

2007	Expenses	Income
ČD, a.s.		
Costs of managing the operation of railway infrastructure	4,720,292	0
Costs of maintaining the operability of railway infrastructure	6,662,161	0
Costs of allocation of railway infrastructure capacities	59,892	0
Income from the use of railway infrastructure – passenger transport	0	1,595,008
Income from the use of railway infrastructure – freight transport	0	4,093,395
Income from the allocated railway infrastructure capacity	0	51,624
<b>Total</b>	<b>11,442,345</b>	<b>5,740,027</b>

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

As of 31 December 2008, SŽDC recorded amounts due from České dráhy, a.s. of CZK 894,441 thousand. This receivable is reported as a component of trade receivables on the face of the balance sheet. In addition, SŽDC recorded a receivable from ČD, a.s. arising from an estimated payable of CZK 592,643 thousand. The balance of these items represents the trade receivables of SŽDC of CZK 301,798 thousand.

Expenses and income of SŽDC in relation to ČD Cargo, a.s. (in CZK '000)	2007	2008
Income from the use of the railway infrastructure – freight transportation	333,187	4,142,140
Income from the allocated railway infrastructure capacity	19,834	18,721
Income from the electricity – SŽE	0	1,394,975
<b>Total</b>	<b>353,021</b>	<b>5,555,836</b>

As of 31 December 2008, SŽDC records amounts due from and to ČD Cargo, a.s., the aggregate net book value represents a receivable of SŽDC amounting to CZK 1,101,975 thousand. This receivable is reported as a component of trade receivables on the face of the balance sheet.

#### **7.5. Economic Benefits Associated with Fixed Assets**

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

#### **7.6. Privatisation**

SŽDC records assets held for privatisation.

In 2008, the Company privatised 79 residential buildings. The income from the privatisation which was received from the Ministry of Finance in 2008 was recognised in operating income and amounted to CZK 677,438 thousand, of which CZK 467,092 thousand relates to privatisation projects in 2007. The net book value of the disposed of privatised assets was CZK 120,227 thousand in 2008, of which CZK 1,004 thousand relates to the 100 percent sale of receivables from due leases for apartments.

The receivable from the Czech Ministry of Finance for unsettled completed privatisation projects of residential buildings for 2008 amounts to CZK 1,446 thousand.

In 2008, twelve privatisation projects were effected in respect of assets other than residential buildings. The income from the privatisation in 2008 received from the Czech Ministry of Finance recognised in operating income amounted to CZK 64,182 thousand, of which CZK 39,368 thousand relates to privatisation projects completed in 2007.

The net book value of disposed of other privatised assets in 2008 is CZK 101,956 thousand, the projects were completed without the sale of receivables.

The receivable from the Czech Ministry of Finance for unsettled completed privatisation projects of other assets amounts to 6,468 thousand in the year ended 31 December 2008.

As of 31 December 2008, SŽDC records assets intended for the settlement of payables assumed from ČD, s.o. listed in the Appendix to Act No. 77/2002 Coll. in the aggregate net book value of CZK 803,876 thousand. As of 31 December 2007, the net book value of these assets amounted to CZK 1,044,247 thousand.

#### **7.7. Sale of Assets**

##### **7.7.1. Sale of Redundant Assets**

Assets listed in the Appendix to Act No. 77/2002 Coll. that were not registered for privatisation are dealt with in accordance with the proposal for dealing with assets, the individual items of which were approved by the Management Board of SŽDC, s.o. and discussed by the Czech Ministry of Transportation. The income from the sale of these assets is earmarked for settlement of the payables of České dráhy, s.o. The three transactions effected in 2008 resulted in the sales of other assets in the aggregate amount of the agreed purchase price of CZK 8,176 thousand.

In 2007, three transactions generated sales of CZK 6,601 thousand.

The sale of the redundant railway infrastructure assets in 2008 involved 103 transactions of which the agreed purchase price was CZK 26,923 thousand.

In 2007, the remaining assets of the railway infrastructure were sold in 17 transactions with the agreed purchase price of CZK 7,386 thousand.

##### **7.7.2. Sale of Residential Buildings**

Residential buildings listed in the Appendix to Act No. 77/2002 Coll. that could not be privatised due to the non-formation of housing associations were sold directly. In 2008, the aggregate income from the direct sale of seven residential buildings amounted to CZK 10,001 thousand. The net book value of sold residential buildings was CZK 899 thousand in the year ended 31 December 2008.

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

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.

## XV. Complementary Data

Pursuant to paragraph 3, section § 118 of Act No. 256/2004 Coll. as amended, we supplement data which are not included in other chapters of this Annual Report.

### Financial and non-financial income of the organization management

#### Financial and non-financial income of statutory bodies and senior executives

Financial income (in CZK '000)	11,666
Non-financial income (in CZK '000)	0
Number of people	9

The number of people was increased throughout the year due to changing extent of controlled activities as of 1.7.2008.

#### Financial and non-financial income of Managing Board members

Financial income (in CZK '000)	4
Non-financial income (in CZK '000)	0
Number of people	7

Since December 2008, the number of Management Board members has been increased from five to seven.

### Principles of remuneration of senior executives

The statutory body of SŽDC is the Director General who controls operation of the company and acts on its behalf. The Director General is appointed and dismissed by the Managing Board.

Director General's Remuneration follows the principles of the managerial contract and is disbursed in the form of a guaranteed part of monthly salary for the work done, which is set for the respective calendar year by the Managing Board. When complying with the set conditions, the Director General is entitled to a non-guaranteed part of salary which is disbursed in the form of an annual bonus after a complex evaluation by the Managing Board. Set conditions for the annual bonus applied to 2008 in regard to the accomplishment of the main tasks of the organization, to the level of fulfilling objectives set by the Managing Board and to the complex evaluation of the managerial level of the Director General.

Senior Executives (Deputies Director General) are appointed and dismissed by the Director General and throughout 2008 they were remunerated in compliance with the "Directive on SŽDC Employees Remuneration", which was a part of the Company Collective Agreement.

Throughout 2008, remuneration was structured in individual agreements on the salary amount in compliance with the above-mentioned directive on remuneration. The sum of this salary is specified by the Director General, whereas the guaranteed part of the salary – 80% is paid on a monthly basis and the outstanding 20% is evaluated and paid on the basis of specifically pre-determined indicators after the end of the respective quarter. Indicators for the deputies are defined and evaluated by the Director General.

Members of the Managing Board are appointed and dismissed by the Government of the Czech Republic on the motion of the Minister of Transport. The members of the Managing Board have their contracts on their positions concluded in compliance with relevant clauses of Act No. 513/1991 Coll., Commercial Code, as amended. The members of the Managing Board received financial income of CZK 4,000 in the accounting period of 2008.

There are no employee's amenities applied to senior executives that would be above standard compared to other organization employees.

## Information on senior executives

### Information on statutory body and senior executives

Statutory body – Director General	Jan Komárek	
Deputy DG for Strategy	Bohuslav Navrátil	
Deputy DG for Rail Operation	Jaromír Kadlec	from 1.7.2008
Deputy DG for Rail Operability	Josef Novobilský	from 1.7.2008
Deputy DG for Rail Modernization	Miroslav Konečný	
Deputy DG for Technology	Radek Vičar	from 1.7.2008
Deputy DG for Economy	Pavel Švagr	from 31.8.2008
	Vladimír Filip	from 1.9.2008
Deputy DG for Assets Management	Zita Karasová	
Deputy DG for Human Resources	Zdeněk Jílek	from 1.11.2008

Address: Správa železniční dopravní cesty, s.o., Dlážděná 1003/7, 110 00 Prague 1.

### Information on Managing Board

Chairman of Managing Board	Vladimír Bártl	till 1.12.2008
	Adolf Jílek	from 2.12.2008
Members of Managing Board	Ivan Adamec	
	Vlastimil Aubrecht	
	František Sivera	
	Adolf Jílek	till 1.12.2008
	Václav Janout	from 1.12.2008
	Roman Jurečko	from 1.12.2008
	Josef Smýkal	from 1.12.2008

Managing Board members' official address is the organization address, i.e. Správa železniční dopravní cesty, s.o., Dlážděná 1003/7, 110 00 Prague 1.

### Declaration

I hereby declare that according to the data provided by senior executives there is no conflict of interest between those senior executives' function they perform at SŽDC and the main activity performed outside SŽDC. Senior executives' declarations signed in their own hands related to the issue of conflict of interest are kept safe on the premises of the organization, i.e. Správa železniční dopravní cesty, s.o., Dlážděná 1003/7, 110 00 Prague 1.

Prague, 30.4.2009



**Ing. Jan Komárek**  
Director General



**Adolf Jílek**  
Chairman of Managing Board

**Auditors' Fees** (in CZK '000)

Fees for obligatory audit of the financial statement	2,300
Fees for other certifying activities	4,100
Fees for other non-auditorial service of the statutory auditor	2,335

The fees for auditorial activities are composed of the payments for the obligatory audit of the 2007 financial statement and of payments for other certifying services. Fees for other non-auditorial service of the statutory auditor include consultations related to accounting, tax and legal issues and to the assessment of economic efficiency.

Other data requested by paragraph 3, section of § 118 Act No. 256/2004 Coll. as amended, which are irrelevant for SŽDC, are not presented or commented in any way.

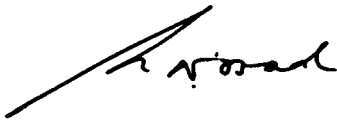
**Person responsible for the Annual Report**

Milan Novosad, Director of Accounting Methodology Department

**Statutory declaration of a person responsible for the Annual Report**

I declare that the information contained in the SŽDC 2008 Annual Report is true. No essential circumstances that could have an impact on precise and correct evaluation of SŽDC as the bond issuer and of the issued bonds were not omitted or distorted.

Prague, 30.4.2009



**Milan Novosad**

# XVI. Directory

## **Director General**

**Jan Komárek**

Dlážděná 1003/7

110 00 Prague 1

### **Secretariate:**

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## **Deputy Director General for Strategy**

**Bohuslav Navrátil**

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## **Deputy Director General for Rail Operation**

**Jaromír Kadlec**

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110 00 Prague 1

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## **Deputy Director General for Rail Operability**

**Josef Novobilský**

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## **Deputy Director General for Modernization**

**Miroslav Konečný**

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## **Deputy Director General for Technical Services**

**Radek Vičar**

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## **Deputy Director General for Economy**

**Vladimír Filip**

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## **Deputy Director General for Assets Management**

**Zita Karasová**

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## **Deputy Director General for Human Resources**

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